UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended January 30, 2022

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

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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 No.)
2455 Paces Ferry Road	
Atlanta, Georgia	**30339**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.05 Par Value Per Share	HD	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ 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 ☒ Accelerated filer ☐ Non-accelerated filer ☐ 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of voting common stock held by non-affiliates of the registrant on July 30, 2021 was $346.5 billion.

The number of shares outstanding of the registrant's common stock as of March 4, 2022 was 1,033,349,933 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2022 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K to the extent described herein.

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COMMONLY USED OR DEFINED TERMS

Term	Definition
ASR	Accelerated share repurchase
ASU	Accounting Standards Update
BODFS	Buy Online, Deliver From Store
BOPIS	Buy Online, Pickup In Store
BORIS	Buy Online, Return In Store
BOSS	Buy Online, Ship to Store
CDP	The not-for-profit organization formerly known as the Carbon Disclosure Project
Comparable sales	As defined in the Results of Operations section of MD&A
DIFM	Do-It-For-Me
DIY	Do-It-Yourself
EH&S	Environmental, Health, and Safety
EPA	U.S. Environmental Protection Agency
ESG	Environmental, social, and governance
ESPP	Employee Stock Purchase Plan
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
fiscal 2019	Fiscal year ended February 2, 2020 (includes 52 weeks)
fiscal 2020	Fiscal year ended January 31, 2021 (includes 52 weeks)
fiscal 2021	Fiscal year ended January 30, 2022 (includes 52 weeks)
fiscal 2022	Fiscal year ending January 29, 2023 (includes 52 weeks)
fiscal 2023	Fiscal year ending January 28, 2024 (includes 52 weeks)
GAAP	U.S. generally accepted accounting principles
HD Supply	HD Supply Holdings, Inc.
IRS	Internal Revenue Service
LIBOR	London interbank offered rate
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MRO	Maintenance, repair, and operations
NOPAT	Net operating profit after tax
NYSE	New York Stock Exchange
PLCC	Private label credit card
Pro	Professional customer
Restoration Plan	Home Depot FutureBuilder Restoration Plan
ROIC	Return on invested capital
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
SG&A	Selling, general, and administrative

CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements contained herein, as well as in other filings we make with the SEC and other written and oral information we release, regarding our performance or other events or developments in the future 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 impact of the COVID-19 pandemic and the related recovery on our business, results of operations, cash flows and financial condition (which, among other things, may affect many of the items listed below); the demand for our products and services; net sales growth; comparable sales; the effects of competition; our brand and reputation; implementation of store, interconnected retail, supply chain and technology initiatives; inventory and in-stock positions; the state of the economy; the state of the housing and home improvement markets; the state of the credit markets, including mortgages, home equity loans, and consumer credit; impact of tariffs; issues related to the payment methods we accept; demand for credit offerings; management of relationships with our associates, potential associates, suppliers and service providers; cost and availability of labor; costs of fuel and other energy sources; international trade disputes, natural disasters, climate change, public health issues (including pandemics and quarantines, related shut-downs and other governmental orders, and similar restrictions, as well as subsequent re-openings), cybersecurity events, military conflicts or acts of war, and other business interruptions that could disrupt operation of our stores, distribution centers and other facilities, our ability to operate or access communications, financial or banking systems, or supply or delivery of, or demand for, the Company’s products or services; our ability to meet ESG goals; continuation or suspension of share repurchases; net earnings performance; earnings per share; dividend targets; capital allocation and expenditures; liquidity; return on invested capital; expense leverage; stock-based compensation expense; commodity or other price inflation and deflation; our ability to issue debt on terms and at rates acceptable to us; the impact and expected outcome of investigations, inquiries, claims, and litigation, including compliance with related settlements; the effect of accounting charges; the effect of adopting certain accounting standards; the impact of regulatory changes, including changes to tax laws and regulations; store openings and closures; financial outlook; and the impact of acquired companies, including HD Supply, on our organization and the ability to recognize the anticipated 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, dependent on the actions of third parties, or currently unknown to us – as well as potentially inaccurate assumptions that could cause actual results to differ materially from our historical experience and our expectations and projections. These risks and uncertainties include, but are not limited to, those described in Part I, Item 1A, “Risk Factors,” and elsewhere in this report and also as may be described from time to time in future reports we file with the SEC. 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 herein, 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 filings with the SEC and in our other public statements.

PART I

Item 1. Business.

Introduction

The Home Depot, Inc. is the world's largest home improvement retailer based on net sales for fiscal 2021. We offer our customers a wide assortment of building materials, home improvement products, lawn and garden products, décor products, and facilities maintenance, repair and operations products and provide a number of services, including home improvement installation services and tool and equipment rental. As of the end of fiscal 2021, we operated 2,317 stores located throughout the U.S. (including the Commonwealth of Puerto Rico and the territories of the U.S. Virgin Islands and Guam), Canada, and Mexico. The Home Depot stores average approximately 104,000 square feet of enclosed space, with approximately 24,000 additional square feet of outside garden area. We also maintain a network of distribution and fulfillment centers, as well as a number of e-commerce websites in the U.S., Canada and Mexico. When we refer to "The Home Depot," the "Company," "we," "us" or "our" in this report, we are referring to The Home Depot, Inc. and its consolidated subsidiaries.

The Home Depot, Inc. is a Delaware corporation that was incorporated in 1978. Our Store Support Center (corporate office) is located at 2455 Paces Ferry Road, Atlanta, Georgia 30339. Our telephone number at that address is (770) 433-8211.

Our Business

Our Strategy

The retail landscape has changed rapidly over the past several years, with customer expectations constantly evolving. In fiscal 2021, this trend continued due to the challenges created by the ongoing COVID-19 pandemic and the broader domestic and global business environment, including supply chain disruptions, tight labor market conditions, and inflationary pressures. To navigate this dynamic environment and meet heightened levels of home improvement demand throughout the year, we had to operate with agility while also managing evolving requirements to support customer and associate safety.

Our ability to operate successfully and meet the needs of our customers was due in significant part to our strategic investments over the past several years aimed at creating an interconnected, frictionless shopping experience that enables our customers to seamlessly blend the digital and physical worlds. Going forward, we will leverage the momentum of these strategic investments and continue to invest in our business in support of the following goals:

- We intend to provide the best customer experience in home improvement;
- We intend to extend our position as the low-cost provider in home improvement; and
- We intend to be the most efficient investor of capital in home improvement.

We believe that these goals will help us grow faster than the market and deliver value to our shareholders. We are steadfast in this commitment, while also recognizing that exercising corporate responsibility and being informed by the needs of our other stakeholders, including our customers, associates, supplier partners, and communities, creates value for all stakeholders, including our shareholders.

Deliver Shareholder Value

We deliver on our objective to create shareholder value through our disciplined approach to capital allocation. Our capital allocation principles are as follows:

- First, we intend to reinvest in our business to drive growth faster than the market.
- Second, after meeting the needs of the business, we look to return excess cash to our shareholders through dividends and share repurchases. We intend to increase our dividend as we grow earnings.

In fiscal 2021, we invested $2.6 billion in capital expenditures to support an interconnected customer experience. We also focused on driving productivity throughout the business to lower our costs. The combination of reinvesting in the business to drive higher sales and driving productivity to lower costs creates what we refer to as a virtuous cycle, which has allowed us to improve the customer experience, increase our competitiveness in the market, and deliver shareholder value.

In fiscal 2021, we returned approximately $22 billion to shareholders in the form of dividends and share repurchases. We paid $7.0 billion in cash dividends and returned approximately $15.0 billion to our shareholders in the form of share repurchases in fiscal 2021. Our capital allocation is discussed further in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our Customers

We serve two primary customer groups — consumers (including both DIY and DIFM customers) and professional customers — and have developed varying approaches to meet their diverse needs:

DIY Customers. These customers are typically homeowners who purchase products and complete their own projects and installations. Our associates assist these customers both in our stores and through online resources and other media designed to provide product and project knowledge. We also offer a variety of clinics and workshops both to share this knowledge and to build an emotional connection with our DIY customers.

Professional Customers (or "Pros"). These customers are primarily professional renovators/remodelers, general contractors, maintenance professionals, handymen, property managers, building service contractors and specialty tradesmen, such as electricians, plumbers and painters. These customers build, renovate, remodel, repair and maintain residential properties, multifamily properties, hospitality properties and commercial facilities, including education, healthcare, government, institutional, and office buildings.

We have a number of initiatives to drive growth with our Pros, including a customized online experience, a dedicated sales force, an extensive delivery network, our Pro Xtra loyalty program, enhanced credit offerings and inventory management programs.

In the fourth quarter of fiscal 2020, we extended our reach in the MRO marketplace with our acquisition of HD Supply, a leading national distributor of MRO products to multifamily, hospitality, healthcare, and government housing facilities, among others. In fiscal 2021 we integrated our legacy Interline Brands business into HD Supply. Our MRO operations use a distribution center-based model that sells products primarily through a professional sales force and through our e-commerce platforms and print catalogs.

We recognize the great value our Pros provide to their clients, and we strive to make their jobs easier and help them grow their businesses. We believe that investments aimed at deepening our relationships with our Pros are yielding increased engagement and will continue to translate into incremental spend.

DIFM Customers. Intersecting our DIY customers and our Pros are our DIFM customers. These customers are typically homeowners who use Pros to complete their project or installation. Currently, we offer installation services in a variety of categories, such as flooring, cabinets and cabinet makeovers, countertops, furnaces and central air systems, and windows. DIFM customers can purchase these services in our stores, online, or in their homes through in-home consultations. In addition to serving our DIFM customer needs, we believe our focus on the Pros who perform services for these customers helps us drive higher product sales.

Our Products and Services

A typical The Home Depot store stocks approximately 30,000 to 40,000 items during the year, including both national brand name and proprietary products. Our online product offerings complement our stores by serving as an extended aisle, and we offer a significantly broader product assortment through our websites, including homedepot.com, our primary website; blinds.com, our online site for custom window coverings; and thecompanystore.com, our online site featuring textiles and décor products.

We believe our merchandising organization is a key competitive advantage, delivering product innovation, assortment and value, which reinforces our position as the product authority in home improvement. In fiscal 2021, we continued to invest in merchandising resets in our stores to refine assortments, optimize space productivity, introduce innovative new products to our Pros and consumers, and improve visual merchandising to drive a better shopping experience. At the same time, we remain focused on offering everyday values in our stores and online.

To help our merchandising organization keep pace with changing customer expectations and increasing desire for innovation, localization and personalization, we are continuing to invest in tools to better leverage our data and drive a deeper level of collaboration with supplier partners. As a result, we have continued to focus on enhanced merchandising information technology tools to help us: (1) build an interconnected shopping experience that is tailored to our customers' shopping intent and location; (2) provide the best value in the market; and (3) optimize our product assortments. In light of the challenges faced due to the COVID-19 pandemic, our merchandising team has leveraged technology while working with our inventory and supply chain teams, as well as our supplier partners, to adjust our assortments, introduce alternate products where needed, and build depth in high-demand products. As cost pressures have risen in several product categories in the current environment, our tools have helped our merchandising, finance and data analytics teams as they work with our supplier partners to manage these pressures.

To complement our merchandising efforts, we offer a number of services for our customers, including installation services for our DIY and DIFM customers, as noted above. We also provide tool and equipment rentals at over 1,400 locations across the U.S. and Canada, providing value and convenience for both Pros and consumers. To improve the customer experience and continue to grow this differentiated service offering, we are continuing to invest in more locations, more tools, and better technology.

Sourcing and Quality Assurance. We maintain a global sourcing program to obtain high-quality and innovative products directly from manufacturers in the U.S. and around the world. During fiscal 2021, in addition to our U.S. sourcing operations, we maintained sourcing offices in Mexico, Canada, China, India, Vietnam and Europe. To ensure that suppliers adhere to our high standards of social and environmental responsibility, we also have a global responsible sourcing program. Under our supplier contracts, our suppliers are obligated to ensure that their products comply with applicable international, federal, state and local laws. These contracts also require compliance with our responsible sourcing standards, which cover a variety of expectations across multiple areas of social compliance, including supply chain transparency, health and safety, environment, compensation, hours of work, and prohibitions on child and forced labor. To drive accountability with our suppliers, our standard supplier buying agreement includes a factory audit right related to these standards, and we conduct factory audits and compliance visits with our suppliers of private branded and direct import products. Our 2021 Responsible Sourcing Report, available on our website at https://corporate.homedepot.com/responsibility/sourcing-responsibility, provides more information about this program. In addition, we have both quality assurance and engineering resources dedicated to establishing criteria and overseeing compliance with safety, quality and performance standards for our private branded products.

Intellectual Property. Our business has one of the most recognized brands in North America. As a result, we believe that The Home Depot® trademark has significant value and is an important factor in the marketing of our products, e-commerce, stores and business. We have registered or applied for registration of trademarks, service marks, copyrights and internet domain names, both domestically and internationally, for use in our business, including our proprietary brands such as HDX®, Husky®, Hampton Bay®, Home Decorators Collection®, Glacier Bay®, Vigoro®, Everbilt® and Lifeproof®. The duration of trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained.

We also maintain patent portfolios relating to our business operations, retail services and products and seek to patent or otherwise protect innovations we incorporate into our business. Patents generally have a term of twenty years from the date they are filed. As our patent portfolio has been built over time, the remaining terms of the individual patents across our patent portfolio vary. Although our patents have value, no single patent is essential to our business. We continuously assess our merchandising departments and product lines for opportunities to expand the assortment of products offered within The Home Depot's portfolio of proprietary and exclusive brands.

Competition and Seasonality

Our industry is highly competitive, very fragmented, and evolving. As a result, we face competition for our products and services from a variety of retailers, suppliers, distributors and manufacturers that sell products directly to their respective customer bases, and service providers, ranging from traditional brick-and-mortar, to multichannel, to exclusively online. These competitors include a number of other home improvement retailers; electrical, plumbing and building materials supply houses; and lumber yards. With respect to some products and services, we also compete with specialty design stores, showrooms, discount stores, local, regional and national hardware stores, paint stores, mail order firms, warehouse clubs, independent building supply stores, MRO distributors, home décor retailers, and other retailers, as well as with providers of home improvement services and tool and equipment rental. The internet facilitates competitive entry, price transparency, and comparison shopping, increasing the level of competition we face.

We compete primarily based on customer experience, price, quality, product availability and assortment, and delivery options, both in-store and online. We also compete based on store location and appearance, presentation of merchandise, and ease of shopping experience. Furthermore, with respect to delivery options, customers are increasingly seeking faster and/or guaranteed delivery times, low-price or free shipping, and/or convenient pickup options, including curbside pickup. Our ability to be competitive on delivery and pickup times, options and costs depends on many factors, including the success of our supply chain investments, described more fully under “Our Supply Chain” below.

Our business is subject to seasonal influences. Generally, our highest volume of sales occurs in our second fiscal quarter, and the lowest volume occurs either during our first or fourth fiscal quarter.

Interconnected Shopping Experience

We continue to enhance our capabilities to provide our customers with a frictionless interconnected shopping experience across our stores, online, on the job site, and in their homes, focusing on continued investments in our website and mobile apps to enhance the digital customer experience.

Digital Experience. Enhancements to our digital properties are critical for our increasingly interconnected customers, who research products online and check available inventory before going into one of our stores to view the products in person or talk to an associate and then make their purchase in store or online. While in the store, customers may also go online to access ratings and reviews, compare prices, view our extended assortment, and purchase additional products. Our investments in a truly interconnected experience are focused on bringing together the power of our physical retail presence and the frictionless interaction of our digital capabilities.

A significant majority of the traffic in our digital channels is on a mobile device. Mobile customers expect more simplicity and relevancy in their digital interactions. As a result, we have made significant investments to our digital properties to improve the overall presentation and ease of navigation for the user. We have also enhanced the “shopability” of an online product by including more information on the product’s landing page, including related products and/or parts of a collection, and a multitude of fulfillment options. Our focus on improving search capabilities, site functionality, category presentation, product content, speed to checkout, and enhanced fulfillment options has yielded higher traffic, better conversion and continued sales growth. It has also been critical during the COVID-19 pandemic, as customers have gravitated even more to the digital environment.

Further, we do not view the interconnected shopping experience as a specific transaction; rather, we believe it encompasses an entire journey from inspiration and know-how, to purchase and fulfillment, to post-purchase care and support. Customers expect more personalized messaging, so we are focusing on connecting marketing activities with the online and in-store experiences to create a seamless series of engagements across channels. From the inspirational point of the purchase journey to providing product know-how, we are continuing to invest in the infrastructure and capabilities needed to deliver the most relevant marketing messages to our customers based upon what is important for them today.

Store Experience. Our stores remain the hub of our business, and we are investing to improve the customer shopping experience through easier navigation and increasing the convenience and speed of checkout. For several years, our associates have used web-enabled handheld devices we call “GET phones” to help expedite the online order checkout process, locate products in the aisles and online, and check inventory on hand. To improve the customer’s experience in our stores, we have also empowered our customers with additional self-help tools, including mobile app-enabled store navigation. Our app provides store-specific maps, which allow customers to pinpoint the exact location of an item on their mobile devices.

In fiscal 2021, we leveraged the investments made in our stores over the past several years to operate effectively in the dynamic environment we faced throughout the year. These investments include our wayfinding sign and store refresh package in all of our U.S. stores; our self-service lockers, online order storage areas at front entrances, and curbside pickup, which offer convenient pickup options for online orders; electronic shelf label capabilities; and the re-design of the front-end area, including reconfigured service desks, improved layouts in all checkout areas, and expanded and enhanced self-checkout options. We believe these investments are driving higher customer satisfaction scores, and we will continue to invest to improve the customer experience going forward.

Investing in Associate Productivity. We continually strive to improve our store operations for our associates. Our goal is to remove complexity and inefficient processes from the stores to allow our associates to focus on our customers. To this end, we have continued to focus our efforts in such areas as optimizing product flow to decrease the amount of time a store associate spends locating product and to improve on-shelf product availability; creating a simpler order management system; expanding in-aisle, real-time mobile learning tools for our associates’ own development and to assist with customer questions; and using labor model tools to better align associate activity with customer needs.

Investing in Safety. We are committed to maintaining a safe shopping and working environment for our customers and associates. We empower trained EH&S associates to evaluate, develop, implement and enforce policies, processes and programs on a Company-wide basis. Our EH&S policies are woven into our everyday operations and are part of The Home Depot culture. Common program elements include: daily store inspection checklists (by department); routine follow-up audits from our store-based safety team members and regional, district and store operations field teams; equipment enhancements and preventative maintenance programs to promote physical safety; departmental merchandising safety standards; training and education programs for all associates, with varying degrees of training provided based on an associate’s role and responsibilities; and awareness, communication and recognition programs designed to drive operational awareness and an understanding of EH&S matters. We also continued to undertake a number of additional measures for the safety of our associates and customers in response to the COVID-19 pandemic.

Our Supply Chain

We continue to focus on building best-in-class competitive advantages in our supply chain to be responsive to our customers' expectations for how, when and where they choose to receive our products and services. As part of enhancing the interconnected shopping experience, we continue to invest in expanding our supply chain network, with the goal of achieving the fastest, most efficient and reliable delivery capabilities in home improvement. Our efforts are focused on ensuring product availability and increasing the speed and reliability of delivery for our customers while managing our costs. Despite the challenges faced by the global supply chain in fiscal 2021, our supply chain investments permitted us to continue to operate effectively and meet our customers' needs.

We centrally forecast and replenish the vast majority of our store products through sophisticated inventory management systems and utilize our network of distribution centers to serve both our stores' and customers' needs. Our supply chain includes multiple distribution center platforms in the U.S., Canada, and Mexico tailored to meet the needs of our stores and customers based on types of products, location, transportation, and delivery requirements. These platforms include rapid deployment centers, stocking distribution centers, bulk distribution centers, and direct fulfillment centers. As part of the expansion of our supply chain, we have invested to further automate and mechanize our rapid deployment center network to drive efficiency and faster movement of product.

We are also expanding our fulfillment network, investing in a significant number of new fulfillment facilities to drive speed and reliability of delivery for our customers and to help us meet our goal of reaching 90% of the U.S. population with same or next day delivery for extended home improvement product offerings, including big and bulky products. These facilities include omni-channel fulfillment centers, which deliver product directly to customers, and market delivery operations, which function as local hubs to consolidate freight for dispatch to customers for the final mile of delivery, with a focus on appliances. We are also adding flatbed distribution centers, which handle large items like lumber that are transported on flatbed trucks. As of the end of fiscal 2021, we have opened a number of additional fulfillment facilities and will continue to build out our fulfillment network over the next few years. This network is designed to create a competitive advantage with unique, industry-leading capabilities for home improvement needs.

In addition to our distribution and fulfillment centers, we leverage our stores as a network of convenient customer pickup, return, and delivery fulfillment locations. Our premium real estate footprint provides a distinct structural and competitive advantage. For customers who shop online and wish to pick up or return merchandise at, or have merchandise delivered from, our U.S. stores, we have fully implemented our four interconnected retail programs: BOSS, BOPIS, BODFS, and BORIS. To meet customer needs due to the pandemic, we rapidly rolled out curbside pickup to complement our BOPIS offerings, in addition to the self-service lockers at the front entrance of many of our stores. We also offer express car and van delivery service that covers over 75% of the U.S. population. As of the end of fiscal 2021, approximately 55% of our U.S. online orders were fulfilled through a store. We also continue to focus on developing new capabilities to improve both efficiency and customer experience in our store delivery program. Our strategic intent is to have a portfolio of efficient, timely and reliable sources and methods of delivery to choose from, optimizing order fulfillment and delivery based on customer needs, inventory locations and available transportation options.

Corporate Responsibility and Human Capital Management

We organize our environmental, social and governance efforts around three pillars: (1) Focus on Our People, (2) Operate Sustainably, and (3) Strengthen Our Communities. Highlights of each of these pillars are set forth below. These pillars are reflective of our commitment to ESG and are fundamentally embedded in our operations and culture. We believe this approach creates value for all of our stakeholders, including our customers, associates, supplier partners, and the communities we serve, in turn creating long-term value for our shareholders. For further information on our three pillars and other ESG-related matters, see our annual ESG Report, available on our website at https://corporate.homedepot.com/responsibility.

Focus on Our People. Our culture and our associates provide intangible and hard-to-replicate competitive advantages. We leverage these competitive advantages to provide an outstanding customer experience by putting customers first and taking care of our associates.

Culture and Values. The Home Depot has a strong commitment to ethics and integrity, and we are a values- and culture-centric business. Our commitment to our core values drives our approach to human capital management. Our culture is based on our servant leadership philosophy represented by the inverted pyramid, which puts primary importance on our customers and our associates by positioning them at the top, with senior management at the base in a support role. We bring our culture to life through our core values, which serve as the foundation of our business and the guiding principles behind the decisions we make every day.

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Our values also guide our efforts to create an environment that will help us attract and retain skilled associates in the competitive marketplace for talent. We empower our associates to deliver a superior customer experience by living our values, and we position our associates to embody our core values by integrating the importance of our culture into ongoing development programs, performance management practices, and rewards programs. Leaders participate in programs designed to build and strengthen our culture, such as training on leadership skills, cross-functional collaboration, inclusiveness, and associate engagement, and all associates receive annual training on unconscious bias. Our core values are at the root of all of our human capital management programs.

Our Workforce. At the end of fiscal 2021, we employed approximately 490,600 associates, of whom approximately 42,800 were salaried, with the remainder compensated on an hourly basis. Set forth below is the geographic makeup of our workforce.

Geographic Location	Number of Associates	% of Total Workforce
United States	437,000	89.1%
Canada	34,100	6.9%
Mexico	19,200	3.9%
Other [(1)]	300	0.1%
Total	**490,600**	**100%**

[(1)] Includes associates in our sourcing organization located in China, Vietnam, India, Italy, Poland and Turkey.

Talent Attraction and Development. As we attract and hire new associates, we strive to create a customer-like experience for jobseekers as they progress through the steps of our recruiting process by focusing on speed and personalization. We employ targeted marketing practices through our careers website, which personalizes the user's experience based on jobseeker location and searching behavior. Jobseekers can also apply for roles from anywhere using desktop or mobile devices. Once a jobseeker has applied for a role, we prioritize self-service by allowing candidates to schedule or reschedule interviews directly from their mobile device. Lastly, we created a quick hiring process for candidates by leveraging job-matching automation.

We offer all of our associates the opportunity to benefit from robust development opportunities. We invest in ongoing growth and development by integrating our culture and values into our performance management practices, providing coaching through continuous leader support, and empowering our associates to learn new skills at their own pace through mobile applications our associates can access at any time. We equip our leaders with the tools they need to develop themselves and their teams through several programs designed to help them lead inclusively, empower their teams, and serve as mentors for our associates.

Associate Engagement. Associate engagement is the emotional commitment associates have to The Home Depot. It is vital to our culture and to our success. We create an engaging workplace by continuously listening to and acting on associate feedback. We provide several pulse check surveys to groups of associates throughout the year that help us determine how emotionally connected those associates are to our customers, the Company, their jobs, fellow associates, and leaders. In addition, our annual Voice of the Associate survey, which includes all associates, serves as our primary means of gauging associates' level of engagement within their roles. We use the feedback from these surveys to help improve the overall associate experience. Through the years, the results from our surveys have consistently indicated that, on average, four out of five associates are emotionally committed and engaged. We also maintain a digital associate engagement platform that links associates with common interests and fuels connections to co-workers and Company leaders. Additionally, we have a number of programs to recognize stores and individual associates for exceptional customer service.

Diversity, Equity and Inclusion. We believe that a diverse, equitable and inclusive workplace is key to our success. We are committed to our core values, and we strive to foster a diverse, equitable and inclusive environment where our associates are valued and respected. We work to build a workplace, retail space, and Company that reflect the customers and communities we serve. In particular, in 2020 we elevated and expanded our Office of Diversity, Equity and Inclusion to enhance our focus on associate diversity, supplier diversity, and our support of community- and education-related programs designed to close the wealth gap and enhance education outcomes across underserved and under-represented communities.

Fiscal 2021 Diversity & Inclusion Data

Associate Population	Race/Ethnicity	
	% Minority	% White
U.S. Workforce	48%	52%
U.S. Managers & Above*	38%	63%
U.S. Officers	28%	72%

* Does not include officers.

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

As a Company, we have identified several priorities designed to guide our efforts to enhance diversity, equity and inclusion. We believe these associate- and supplier-focused priorities also enhance our customers' experience:

- Associates
  - Increase diverse representation throughout our organization
  - Create an environment where every associate feels included and valued for who they are
  - Promote equal opportunity in recruitment, hiring, training, development and advancement
- Community
  - Strive to close the wealth gap
  - Advance education for all
- Suppliers
  - Increase use of and spend with diverse suppliers
  - Develop diverse suppliers by providing mentorship and sharing resources

Compensation and Benefits. Consistent with our core values, we take care of our people by offering competitive compensation and comprehensive benefits programs. We continuously make wage investments to ensure our compensation packages reflect the evolving circumstances across our markets, and our profit-sharing program for hourly associates provides semi-annual cash awards for performance against our business plan. We provided enhanced pay and benefits for our associates in fiscal 2020 to alleviate some of the challenges presented by the COVID-19 pandemic. In the third quarter of fiscal 2020, we began to transition from these temporary COVID-19 benefits to permanent compensation enhancements for our frontline, hourly associates. In fiscal 2021, we continued to make additional compensation enhancements. Our associates can take advantage of a range of benefits, including healthcare and wellness programs, vacation and leave of absence benefits including parental leave and paid sick/personal time off, a 401(k) match, our ESPPs, personal finance education and advisory services, assistance programs to help with managing personal and work-life challenges, family support programs, and educational assistance.

Operate Sustainably. We have a long-standing and substantial commitment to sustainable business operations, from the products and services we offer to our customers; to our store construction, maintenance and operations; to our supply chain and packaging initiatives; to our ethical sourcing program. As we strive to operate sustainably, we have focused on protecting the climate, reducing our environmental impact, and sourcing responsibly, and we have set specific, measurable goals to drive progress in these areas.

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Our 2021 ESG Report, available on our website at https://corporate.homedepot.com/responsibility, includes more information on our goals, as well as specific initiatives we have in place to help achieve these goals. Below are highlights of our sustainability program.

Our Environmental Goals. We currently have several goals to help combat climate change and reduce our environmental footprint:

Year Announced	Goal	Goal Date	Status
2018	**Cleaning Products Chemical Reduction**: Eliminate certain chemicals from cleaning products by the end of fiscal 2022	2022	**In Process**
2018	**Science-Based Carbon Emissions Targets**: Reduce Scope 1 and 2 carbon emissions by 2.1% per year, with the goal to achieve a 40% reduction by the end of fiscal 2030 and a 50% reduction by the end of fiscal 2035	2030; 2035	**In Process**
2019	**Recyclable Packaging**: Exclude expanded polystyrene foam (EPS) and polyvinyl chloride (PVC) film from the packaging of private-brand products we sell, replacing them with easier-to-recycle materials by the end of fiscal 2023	2023	**In Process**
2020	**Renewable/Alternative Energy Sources**: Produce or procure, on an annual basis, 335 megawatts of renewable or alternative energy by the end of fiscal 2025	2025	**In Process**
2021	**NEW GOAL: SBTi Emissions Reduction Goals**: By the end of fiscal 2023, set Science Based Targets Initiative (SBTi) goals to reduce Scope 1, 2 and 3 emissions in line with Paris Agreement goals	2023	**In Process**
2021	**NEW GOAL: 100% Renewable Electricity**: Have 100% renewable electricity for all Home Depot facilities worldwide by the end of fiscal 2030	2030	**In Process**

These goals follow the completion in 2020 of a number of previously announced goals, including goals related to reducing store electricity use, eliminating certain chemicals from products we sell, and helping customers reduce their greenhouse gas emissions and save on electricity costs and water use.

Our Environmental Programs and Initiatives. In order to progress against our goals, we have a large number of environmentally-focused programs and initiatives, including:

- *Store Operations and Renewable/Alternative Energy*. We have reduced store energy consumption through initiatives such as LED lighting upgrades; installation of energy efficient HVAC systems; participation in demand mitigation; on-site alternative or renewable energy projects such as fuel cells and solar panels; and contracts with off-site wind and solar power providers. In fiscal 2021, we announced a new goal to produce or procure renewable electricity equivalent to the electricity needs for all Home Depot facilities by the end of fiscal 2030. We have also increased our focus on saving water, implementing smart irrigation systems capable of reducing irrigation-related water use in more than 500 U.S. stores.
- *Product Offerings.* Through our Eco Options® program introduced in 2007, we have helped our customers more easily identify products that meet specifications for energy efficiency, water conservation, healthy home, clean air, and sustainable forestry. Beginning in 2019, we added circular economy, which targets the reduction of waste through recycling and reuse. Under our Eco Options program, we sell ENERGY STAR® certified appliances; WaterSense®-labeled bath faucets, showerheads, aerators, toilets, and irrigation controllers; LED light bulbs; tankless water heaters, and many other products. These products, through proper use, help our customers save money on their utility bills and reduce their environmental impact. We have also launched an Eco Actions™ platform to provide customers with resources, such as project tutorials, to take individual action on environmental issues.
- *In-Store Recycling Programs.* We offer recycling programs in the U.S., including in-store recycling programs for compact fluorescent light bulbs, rechargeable batteries, and cardboard, and a lead acid battery exchange program.

- *Chemical Strategy.* We are committed to increasing our assortment of products that meet high environmental standards, and we encourage our suppliers to invest in developing environmentally-innovative products. Each year, we evaluate our Chemical Strategy, first published in 2017, to ensure our approach and goals are appropriate.
- *Sustainable Packaging.* In addition to our goal related to eliminating EPS and PVC from our private-brand products, we are continually working with suppliers to find ways to make product packaging more recyclable or simply use less materials, such as the reduction of single-use plastics.
- *Supply Chain Optimization.* Through our supply chain initiatives such as space sharing and optimization technology, we are working to maximize our use of every mile to make our supply chain more efficient. We also utilize hydrogen fuel cell technology in our forklifts and have started piloting electric 18-wheelers for deliveries to make our supply chain even more environmentally friendly.
- *CDP Participation*. We are a long-standing participant in the annual CDP reporting process. CDP is an independent, international, not-for-profit organization providing a global system for companies and cities to measure, disclose, manage, and share environmental information. In December 2021, we received a score of “A-” from CDP, reflecting leadership and a high level of action on climate change mitigation, adaptation and transparency.
- *SBTi Goals*. In fiscal 2021, we announced a new goal to adopt new Science Based Targets Initiative (SBTi) goals to reduce Scope 1, 2 and 3 emissions in line with Paris Agreement goals by the end of fiscal 2023. This builds on our current science-based goals to reduce Scope 1 and 2 carbon emissions 2.1% per year, to achieve a 40% reduction by the end of fiscal 2030 and 50% by the end of fiscal 2035.

Over the past several years, our commitment to sustainable operations has resulted in a number of environmental awards and recognitions, including most recently EPA 2021 WaterSense® Partner of the Year Award for our commitment to offering and promoting water-efficient products; EPA 2021 SmartWay Excellence Award, which recognized us as an industry leader in improving freight efficiency and environmental performance; and EPA 2021 Safer Choice Partner of the Year Award, which recognizes achievement in products with safer chemicals that furthers innovative source reduction.

Strengthen our Communities. One of our core values is “Giving Back,” and we support our communities in a number of ways. The Home Depot Foundation focuses on improving the lives of U.S. veterans, assisting communities affected by natural disasters, and training skilled tradespeople to fill the labor gap. Our Team Depot associate volunteers provide thousands of volunteer hours each year on a wide variety of projects. We partner with diverse suppliers and organizations to further support our diversity, equity and inclusion efforts. To further advance diversity, equity and inclusion in our communities, in fiscal 2021 we expanded our supplier diversity program by launching a Tier II supplier diversity program that aims to drive more spending from our direct suppliers to diverse suppliers. Please see our 2021 ESG Report for additional information about our efforts to support the communities we serve.

Government Regulation

As a company with both U.S. and international operations, we are subject to the laws of the U.S. and foreign jurisdictions in which we operate and the rules and regulations of various governing bodies, which may differ among jurisdictions. Compliance with these laws, rules and regulations has not had, and is not expected to have, a material effect on our capital expenditures, results of operations or competitive position as compared to prior periods.

Available Information

Our internet website is www.homedepot.com. We make available on the Investor Relations section of our website, free of charge, our Annual Reports to shareholders, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and Forms 3, 4 and 5, and amendments to those reports, as soon as reasonably practicable after filing such documents with, or furnishing such documents to, the SEC.

We include website addresses throughout this report for reference only. The information contained on these websites is not incorporated by reference into this report.

Item 1A. Risk Factors.

Our business, results of operations, and financial condition are subject to numerous risks and uncertainties. In connection with any investment decision with respect to our securities, you should carefully consider the following risk factors, as well as the other information contained in this report and our other filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. Should any of these risks materialize, our business, results of operations, financial condition and future prospects could be negatively impacted, which in turn could affect the trading value of our securities. You should read these Risk Factors in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and our consolidated financial statements and related notes in Item 8.

Strategic Risks

Strong competition could adversely affect prices and demand for our products and services and could decrease our market share.

Our industry is highly competitive, highly fragmented, and evolving. As a result, we face competition for our products and services from a variety of retailers, suppliers, distributors and manufacturers that sell products directly to their respective customer bases, and service providers, ranging from traditional brick-and-mortar, to multichannel, to exclusively online. These competitors include a number of other home improvement retailers; electrical, plumbing and building materials supply houses; and lumber yards. With respect to some products and services, we also compete with specialty design stores, showrooms, discount stores, local, regional and national hardware stores, paint stores, mail order firms, warehouse clubs, independent building supply stores, MRO distributors, home décor retailers, and other retailers, as well as with providers of home improvement services and tool and equipment rental. The internet facilitates competitive entry, price transparency, and comparison shopping, increasing the level of competition we face.

We compete primarily based on customer experience, price, quality, product availability and assortment, and delivery options, both in-store and online. We also compete based on store location and appearance, presentation of merchandise, and ease of shopping experience. Furthermore, customers are increasingly shopping online and seeking faster and/or guaranteed delivery times, low-price or free shipping, and/or convenient pickup options, including curbside pickup. Our ability to be competitive on delivery and pickup times, options and costs depends on many factors, including leveraging the momentum of our strategic investments in our supply chain and our interconnected retail capabilities to further enhance the customer shopping experience, and our failure to successfully manage these factors and offer competitive delivery and pickup options could negatively impact the demand for our products and our profit margins.

We use our marketing, advertising and promotional programs to drive customer traffic and compete more effectively, and we must regularly assess and adjust our efforts to address changes in the competitive landscape. Intense competitive pressures from one or more of our competitors, such as through aggressive promotional pricing or liquidation events, or our inability to adapt effectively and quickly to a changing competitive landscape, could adversely affect our prices, our margins, or demand for our products and services. If we are unable to timely and appropriately respond to these competitive pressures, including through the delivery of a superior interconnected customer experience or through maintenance of effective sales and marketing, advertising or promotional programs leveraging both our digital and physical platforms, our market share and our financial performance could be adversely affected.

We may not timely identify or effectively respond to consumer needs, expectations or trends, which could adversely affect our relationship with customers, the demand for our products and services, and our market share.

The success of our business depends in part on our ability to identify and respond promptly to evolving trends in demographics; shifts in consumer preferences, expectations and needs; and unexpected weather conditions, public health issues (including pandemics and quarantines and related shut-downs, re-openings, or other actions by government regulators or others), or natural disasters, while also managing appropriate inventory levels in our stores and distribution or fulfillment centers and maintaining an excellent customer experience. It is difficult to successfully predict the products and services our customers will demand. As our customers expect a more personalized experience, our ability to collect, use and protect relevant customer data is important to our ability to effectively meet their expectations. Our ability to collect and use that data, however, is subject to a number of external factors, including the impact of legislation or regulations governing data privacy and security. In addition, each of our primary customer groups has different needs and expectations, many of which evolve as the demographics in a particular customer group change. Customer preferences and expectations related to sustainability of products and operations are also increasing. If we do not successfully differentiate the shopping experience to meet the individual needs and expectations of or within a customer group, we may lose market share with respect to those customers.

Customer expectations about the methods by which they purchase and receive products or services are also becoming more demanding. Customers are routinely and increasingly using technology and a variety of electronic devices and digital platforms to rapidly compare products and prices, read product reviews, determine real-time product availability, and purchase products. Once products are purchased, customers are seeking alternate options for delivery of those products, and they often expect quick, timely, and low-price or free delivery and/or convenient pickup options. We must continually anticipate and adapt to these changes in the purchasing process by improving the online customer experience as well as our delivery options. The coordinated operation of our network of physical stores, distribution facilities, and online platforms is fundamental to the success of our interconnected strategy. We have our BOSS, BOPIS, BODFS and direct fulfillment delivery options, but we cannot guarantee that these or future programs will be maintained and implemented successfully or that we will be able to meet customer expectations on delivery or pickup times, options and costs.

In addition, a greater concentration of online sales with direct fulfillment or curbside pickup could result in a reduction in the amount of traffic in our stores, which would, in turn, reduce the opportunities for cross-selling of merchandise that such traffic creates and could reduce our overall sales and adversely affect our financial performance.

Failure to provide a relevant or effective online customer experience in a timely manner that keeps pace with technological developments and dynamic customer expectations; to maintain appropriate inventory; to provide quick and low-price or free delivery alternatives and convenient pickup options; to differentiate the customer experience for our primary customer groups; to effectively implement an increasingly localized merchandising assortment; or to otherwise timely identify or respond to changing consumer preferences, expectations and home improvement needs could adversely affect our relationship with customers, the demand for our products and services, and our market share.

A positive brand and reputation are critical to our business success, and, if our brand and reputation are damaged, it could negatively impact our relationships with our customers, associates, suppliers, vendors, and shareholders, and, consequently, our business and results of operations or the price of our stock.

Our brand and reputation are critical to attracting customers, associates, suppliers and vendors to do business with us. We must continue to manage and protect our brand and reputation. Negative incidents can erode trust and confidence quickly, and adverse publicity about us could damage our brand and reputation, undermine our customers' confidence, reduce demand for our products and services, affect our ability to recruit, engage, motivate and retain associates, attract regulatory scrutiny, and impact our relationships with current and potential suppliers and vendors. Further, our actual or perceived position or lack of position on social, environmental, political, public policy, economic, geopolitical, or other sensitive issues, and any perceived lack of transparency about those matters, could harm our reputation with certain groups. Customers are also increasingly using social media to provide feedback and information about our Company, including our products and services, in a manner that can be quickly and broadly disseminated. Negative sentiment about the Company shared over social media could impact our brand and reputation, whether or not it is based in fact.

The execution of initiatives to expand our supply chain and enhance the interconnected shopping experience could disrupt our operations in the near term, and these initiatives might not provide the anticipated benefits or might fail.

We continue to invest in our interconnected retail strategy, including by making significant investments to expand our supply chain. These investments are designed to streamline our operations to allow our associates to continue to provide high-quality service to our customers; simplify customer interactions; provide our customers with a more interconnected shopping experience; and create the fastest, most efficient delivery network for home improvement products. Failure to choose the right investments and implement them in the right manner and at the right pace could disrupt our operations. Executing our interconnected retail strategy requires continual investment in our operations and information technology systems, as well as the development and execution of new processes, systems and support. Building out our supply chain also involves significant real estate projects as we expand our distribution network, requiring us to identify and secure available locations with appropriate characteristics needed to support the different types of facilities. If we are unable to effectively manage the volume, timing, nature, location, and cost of these investments, projects and changes, our business operations and financial results could be materially and adversely affected. The cost and potential problems, defects of design, and interruptions associated with the implementation of these initiatives, including those associated with managing third-party service providers, employing new web-based tools and services, implementing new technologies, implementing and restructuring support systems and processes, securing appropriate facility locations, and addressing impacts on inventory levels, could disrupt or reduce the efficiency of our operations in the near term, lead to product availability issues, and impact our profitability.

In addition, our stores are a key element of our interconnected retail strategy, serving as the hub of our customers' interconnected shopping experience. We have an aging store base that requires maintenance, investment, and space reallocation initiatives to deliver the shopping experience that our customers desire. Our investments in our stores may not deliver the relevant shopping experience our customers expect or fully support an interconnected shopping experience. We must also maintain a safe store environment for our customers and associates, as well as protect against loss or theft of our inventory (also called “shrink”). Higher rates of shrink, which we continue to experience, can require operational changes that may increase costs and impact the customer experience.

Our investments to enhance our interconnected shopping experience and expand our supply chain might not provide the anticipated benefits, might take longer than expected to complete or realize anticipated benefits, or might fail altogether, each of which could adversely impact our competitive position and our financial condition, results of operations, or cash flows.

If we are unable to effectively manage and expand our alliances and relationships with selected suppliers of both brand name and proprietary products, we may be unable to effectively execute our strategy to differentiate ourselves from our competitors.

As part of our focus on product differentiation, we have formed strategic alliances and exclusive relationships with selected suppliers to market products under a variety of well-recognized brand names. We have also developed relationships with selected suppliers to allow us to market proprietary products that are comparable to national brands. Our proprietary products differentiate us from other retailers, generally carry higher margins than national brand products, and represent a growing portion of our business. If we are unable to manage and expand these alliances and relationships, maintain favorable terms with current suppliers, or identify alternative sources for comparable brand name and proprietary products, we may not be able to effectively execute product differentiation, which may impact our sales and gross margin results.

Our strategic transactions involve risks, which could have an adverse impact on our business, financial condition and results of operations, and we may not realize the anticipated benefits of these transactions.

We regularly consider and enter into strategic transactions, including mergers, acquisitions, investments, alliances, and other growth and market expansion strategies, such as our acquisition of HD Supply in the fourth quarter of fiscal 2020. We generally expect that these transactions will result in sales increases, cost savings, synergies, enhanced capabilities or various other benefits. Assessing the viability and realizing the benefits of these transactions is subject to significant uncertainty. For each of our acquisitions, we need to determine the appropriate level of integration of the target company’s products, services, associates, and information technology, financial, human resources, compliance, and other systems and processes, and then successfully manage that integration into our corporate structure. Integration can be a complex and time-consuming process, and if the integration is not fully successful or is delayed for a material period of time, we may not achieve the anticipated synergies or benefits of the acquisition. In addition, the integration of businesses may create complexity in our financial systems, internal controls, technology and cybersecurity systems, and operations and make them more difficult to manage. Furthermore, even if the target companies are successfully integrated, the acquisitions may fail to further our business strategy as anticipated, expose us to increased competition or challenges with respect to our products or services, and expose us to additional risks and liabilities. Strategic transactions may also be subject to significant regulatory uncertainty. The changing enforcement landscape may result in additional costs or delays that affect the anticipated outcome of a transaction. Any failure in the execution of a strategic transaction, our approach to the integration of an acquired asset or business, or achieving expected synergies or other benefits could result in slower growth, higher than expected costs, the recording of an impairment of goodwill or other intangible assets, and other actions which could adversely affect our business, financial condition and results of operations.

Operational Risks

Our success depends upon our ability to attract, develop and retain highly qualified associates to provide excellent customer service and to support our strategic initiatives while also controlling our labor costs.

Our customers expect a high level of customer service and product knowledge from our associates. To meet the needs and expectations of our customers, we must attract, develop and retain a large number of highly qualified associates. Our ability to meet our labor needs while controlling labor costs is subject to numerous external factors, including increased market pressures with respect to prevailing wage rates, unemployment levels, and health and other insurance costs; the impact of legislation or regulations governing labor relations, immigration, minimum wage, and healthcare benefits; changing demographics; the continuing impacts of the pandemic; and our reputation within the labor market. We also compete with other retail businesses for many of our associates in hourly positions, and we invest significant resources in training and motivating them to maintain a high level of job satisfaction. These positions have historically had high turnover rates, which can lead to increased training and retention costs, particularly in a competitive labor market. As a result of the ongoing COVID-19 pandemic, we have faced and may continue to face additional challenges in recruiting and retention of associates due to health and safety concerns, vaccine or testing mandates and other governmental requirements; disruption in the availability of school or childcare; and other challenges related to a remote or hybrid working environment for associates who work in our store support centers. These factors, together with growing competition among potential employers, may result in increased salaries, benefits, or other employee-related costs, or may impair our ability to recruit and retain associates, which could have an adverse impact on our business operations, financial condition and results of operations.

In addition, in order to execute our interconnected retail strategy, including our supply chain investments, we must attract and retain a large number of skilled professionals, including technology professionals, to implement our ongoing technology and other investments. The market for these professionals is increasingly competitive. An inability to provide wages and/or benefits, including remote or hybrid work flexibility, that are competitive within the markets in which we operate could adversely affect our ability to retain and attract associates. Further, changes in market compensation rates may adversely affect our labor costs.

Additionally, our ability to successfully execute organizational changes, including management transitions within the Company's senior leadership, and to effectively motivate and retain associates is critical to our business success. If we are unable to locate, to attract or to retain qualified associates, or manage leadership transition successfully, our ability to effectively manage our strategy may be negatively impacted, the quality of service we provide to our customers may decrease, and our financial performance may be adversely affected.

A failure of a key information technology system or process could adversely affect our business.

We rely extensively on information technology systems and related personnel to collect, analyze, process, store, manage, transmit, and protect transactions and data. Some of these systems are managed or provided by third-party service providers, including certain cloud platform providers. In managing our business, we also rely heavily on the integrity of, security of, and consistent access to, this operational and financial data for information such as sales, customer data, associate data, demand forecasting, merchandise ordering, inventory replenishment, supply chain management, payment processing, order fulfillment, customer service, and post-purchase matters. For these information technology systems, applications, and processes to operate effectively, we or our service providers must maintain and update them. Delays in the maintenance, updates, upgrading, or patching of these systems, applications or processes could impair, and on occasion have impaired, their effectiveness or expose us to security risks. Our systems and the third-party systems with which we interact are subject to and on occasion have experienced damage or interruption from a number of causes, including power and other critical infrastructure outages; computer and telecommunications failures; computer viruses; security breaches; internal or external data theft or misuse; cyber-attacks, including the use of malicious codes, worms, phishing, spyware, denial of service attacks, and ransomware; responsive containment measures by us that may involve voluntarily taking systems off line; natural disasters and catastrophic events such as fires, floods, earthquakes, tornadoes, hurricanes, or other extreme weather events; public health concerns, such as pandemics and quarantines; military conflicts, acts of war, terrorism or civil unrest; other systems outages; inadequate or ineffective redundancy; and design or usage errors or malfeasance by our associates, contractors or third-party service providers. Although we and our third-party service providers seek to maintain our respective systems effectively and to successfully address the risk of compromise of the integrity, security and consistent operations of these systems, such efforts are not always successful. As a result, we or our service providers could experience errors, interruptions, delays or cessations of service in key portions of our information technology infrastructure, which could significantly disrupt our operations or impair data security; impact our ability to operate or access communications, financial or banking systems; be costly, time consuming and resource-intensive to remedy; and adversely impact our reputation and relationship with customers, suppliers, shareholders or regulators.

In addition, we are currently making, and expect to continue to make, substantial investments in our information technology systems, infrastructure and personnel, in certain cases with the assistance of strategic partners and other third-party service providers. These investments involve replacing existing systems, some of which are older, legacy systems that are less flexible and efficient, with successor systems; outsourcing certain technology and business processes to third-party service providers; making changes to existing systems, including the migration of applications to the cloud; maintaining or enhancing legacy systems that are not currently being replaced; or designing or cost-effectively acquiring new systems with new functionality. These efforts can result in significant potential risks, including failure of the systems to operate as designed, potential loss or corruption of data, changes in security processes and internal controls, cost overruns, implementation delays or errors, disruption of operations, and the potential inability to meet business and reporting requirements. Any system implementation and transition difficulty may result in operational challenges, security failures, reputational harm, and increased costs that could adversely affect our business operations and results of operations.

Disruptions in our customer-facing technology systems could impair our interconnected retail strategy and give rise to negative customer experiences.

Through our information technology systems, we are able to provide an improved overall shopping and interconnected experience that empowers our customers to shop and interact with us from a variety of electronic devices and digital platforms. We use our digital platforms as sales channels for our products and services, as methods of providing inspiration, and as sources of product, project, and other relevant information to our customers to help drive sales. We also have multiple online communities, digital platforms, and knowledge centers that allow us to inform, assist and interact with our customers. The retail industry is continually evolving and expanding, with a significant increase in sales initiated online and via mobile applications. We must effectively respond to new developments and changing customer preferences with respect to a digital and interconnected experience. We continually seek to enhance all of our online and digital properties to provide an attractive, user-friendly interface for our customers. Disruptions, delays, failures or other performance issues with these customer-facing technology systems, or a failure of these systems to meet our or our customers' expectations, could impair the benefits that they provide to our business and negatively affect our relationship with our customers and, as a result, our financial performance and results of operations.

Disruptions in our supply chain and other factors affecting the distribution of our merchandise could adversely impact our business.

A disruption within our logistics or supply chain network, such as the industry-wide supply chain challenges resulting from the COVID-19 pandemic, could adversely affect our ability to receive and deliver inventory in a timely manner, which could impair our ability to meet customer demand for products and result in lost sales, increased supply chain costs, or damage to our reputation. Such disruptions may result from damage or destruction to our distribution or fulfillment centers or those of our supply chain service providers; weather-related events; cybersecurity incidents or attacks; natural disasters; international trade disputes, trade policy changes or restrictions, or import- or export-related governmental sanctions or restrictions; quotas, tariffs or other import-related taxes; strikes, lock-outs, work stoppages or slowdowns; shortages of supply chain labor, including truck drivers; shipping capacity constraints, including shortages of related equipment; raw material or other shortages; third-party contract disputes; supply or shipping interruptions or costs; costs or unavailability of fuel; military conflicts or acts of war, as well as any related sanctions or other government or private responses; acts of terrorism; public health issues, including pandemics or quarantines (such as the COVID-19 pandemic) and related shut-downs, re-openings, or other actions by government regulators or others; civil unrest; or other factors beyond our control. In recent years, ports in the U.S. and elsewhere have been impacted by capacity constraints, port congestion and delays, periodic labor disputes, security issues, weather-related events, and natural disasters, which have been further exacerbated by the COVID-19 pandemic. Disruptions to our supply chain due to any of the factors listed above could negatively impact our financial performance or financial condition.

If our efforts to maintain the privacy and security of customer, associate, supplier and Company information are not successful, we could incur substantial costs and reputational damage and could become subject to litigation and enforcement actions.

Our business, like that of most retailers, involves the collection, processing, storage, management, transmission and deletion of customers' personal information, preferences, and payment card information, as well as other confidential and sensitive information, such as personal information about our associates and our suppliers and confidential Company information. We also work with third-party service providers that provide technology, systems and services that we use in connection with the handling of this information. Our information systems, and those of our third-party service providers, are vulnerable to an increasing threat of continually evolving data protection and cybersecurity risks. Unauthorized parties have in the past gained access, and will continue to attempt to gain access, to these systems and data through fraud or other means of deceiving our associates or third-party service providers. Hardware, software or applications we develop or obtain from third parties may contain exploitable vulnerabilities, bugs, or defects in design, maintenance or manufacture or other problems that could unexpectedly compromise information security. We have experienced and continue to face the ongoing risk of exploitation of our software providers and our software development and implementation process, including from coding and process vulnerabilities and the installation of so-called back doors that provide unauthorized access to systems and data. The increased use of a remote work infrastructure has also increased the possible attack surfaces. In addition, the risk of cyber-attacks has increased in connection with Russia's invasion of Ukraine and the resulting geopolitical conflict. In light of those and other geopolitical events, nation-state actors or their supporters may launch retaliatory cyber-attacks, and may attempt to cause supply chain and other third-party service provider disruptions, or take other geopolitically motivated retaliatory actions that may disrupt our business operations, result in data compromise, or both. Nation-state actors have in the past carried out, and may in the future carry out, cyber-attacks to achieve their aims and goals, which may include espionage, information operations, monetary gain, ransomware, disruption, and destruction. To achieve their objectives, nation-state actors and other cyber criminals have used and may continue to use numerous attack vectors and methods, including use of stolen passwords, social engineering, phishing, identity spoofing, ransomware or other disruptive and destructive malware, supply chain compromises, and man-in-the-middle and denial of service attacks. The methods used to obtain unauthorized access, disable or degrade service, or sabotage systems are constantly changing and evolving, increasing in frequency and sophistication, and may be difficult to anticipate or detect for long periods of time.

We have implemented and regularly review and update systems, processes, and procedures to protect against unauthorized access to or use of data and to prevent data loss and preserve data integrity. However, the ever-evolving threats mean we and our third-party service providers and business partners must continually evaluate and adapt our respective systems and processes and overall security environment, as well as those of companies we acquire. There is no guarantee that these measures will be adequate to safeguard against all threats, including vulnerabilities, data security breaches, system compromises or misuses of data. As we saw in connection with the data breach we experienced in 2014, any significant compromise or breach of our data security, whether external or internal, or misuse of customer, associate, supplier or Company data, could result in significant costs, including costs to investigate and remediate, as well as lost sales, fines, lawsuits, regulatory investigations, and damage to our reputation. Furthermore, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may not immediately produce signs of anomalous activity or compromise, we may be unable to anticipate these techniques or to implement adequate preventative measures, and we or our third-party service providers may not discover any security breach, vulnerability or compromise of information for a significant period of time after the security incident occurs.

In addition, data governance failures can adversely affect our reputation and business. Our business depends on our customers' and associates' willingness to entrust us with their personal information. Events that adversely affect that trust, including inadequate disclosure to our customers or our associates of our uses of their information or failing to keep our information technology systems and our customers' and associates' sensitive information secure from significant attack, theft, damage, loss or unauthorized disclosure or access, whether as a result of our action or inaction (including human error or malfeasance) or that of our service providers or other third parties, could adversely affect our brand and harm our reputation. Further, the regulatory environment related to data privacy and cybersecurity is constantly changing, with new and increasingly rigorous requirements applicable to our business. The implementation of these requirements has also become more complex. Maintaining our compliance with those requirements, including recently enacted state consumer privacy laws, may require significant effort and cost, require changes to our business practices, and limit our ability to obtain data used to provide a personalized customer experience. In addition, failure to comply with applicable requirements could subject us to fines, sanctions, governmental investigations, lawsuits or reputational damage. While we maintain cyber insurance, our coverage may not be adequate for liabilities or costs actually incurred, and we cannot be certain that insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage of a future claim.

We are subject to payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability, and potentially disrupt our business.

We accept payments using a variety of methods, including credit and debit cards, our private label credit cards, cash, checks, PayPal, an installment loan program, trade credit, and gift cards, and we may offer new payment options over time. Acceptance of these payment options subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. These requirements may change over time or be reinterpreted, making compliance more difficult, costly, or uncertain. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could potentially disrupt our business. The payment methods that we offer also subject us to potential fraud and theft by threat actors, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in our payments and payment processing systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. As a result, our business and operating results could be adversely affected.

Our business is subject to seasonal influences, and uncharacteristic or significant weather conditions, climate change, natural disasters, as well as other catastrophic events, could impact our operations.

Natural disasters, such as hurricanes and tropical storms, fires, floods, droughts, tornadoes, and earthquakes; unseasonable, or unexpected or extreme weather conditions, whether as a result of climate change or otherwise; acts of terrorism or violence, including active shooter situations; public health concerns, such as pandemics and quarantines and related shut-downs, re-openings, or other actions by government regulators or others; civil unrest; military conflicts or acts of war, as well as any related sanctions or other government or private responses; or similar disruptions and catastrophic events can affect consumer spending and confidence and consumers' disposable income, particularly with respect to home improvement or construction projects, and could have an adverse effect on our financial performance. These types of events can also adversely affect our work force and prevent associates and customers from reaching our stores and other facilities. They can also, temporarily or on a long-term basis, disrupt or disable operations of stores, support centers, and portions of our supply chain and distribution network, including causing reductions in the availability of inventory and disruption of utility services. In addition, these events may affect our information systems and digital platforms, resulting in disruption to various aspects of our operations, including our ability to transact with customers and fulfill orders; to communicate with our stores, facilities, store support centers or senior management; or to access financial or banking systems. Unseasonable, unexpected or extreme weather conditions such as excessive precipitation, warm temperatures during the winter season, or prolonged or extreme periods of warm or cold temperatures, could render a portion of our inventory incompatible with customer needs.

Furthermore, the long-term impacts of climate change, whether involving physical risks (such as extreme weather conditions or rising sea levels) or transition risks (such as regulatory or technology changes) are expected to be widespread and unpredictable. These changes over time could affect, for example, the availability and cost of certain consumer products, commodities, and energy (including utilities), which in turn may impact our ability to procure certain goods or services required for the operation of our business at the quantities and levels we require.

As a consequence of these or other catastrophic or uncharacteristic events, we may experience interruption to our operations, increased costs, or losses of property, equipment or inventory, which would adversely affect our revenue and profitability.

If we fail to identify and develop relationships with a sufficient number of qualified suppliers, or if our suppliers experience financial difficulties or other challenges, our ability to timely and efficiently access products that meet our high standards for quality could be adversely affected.

We buy our products from suppliers located throughout the world, who in turn procure materials from around the world. Our ability to continue to identify and develop relationships with qualified suppliers who can satisfy our high standards for quality and responsible sourcing, as well as our need to access products in a timely and efficient manner, is a significant challenge. Our ability to access products from our suppliers can be adversely affected by economic or political instability; civil unrest; military conflicts or acts of war, as well as any related sanctions or other government or private responses; acts of terrorism or violence; public health issues (including pandemics and quarantines and related shut-downs, re-openings, or other actions by the government); the financial instability of suppliers; suppliers' noncompliance with applicable laws; trade restrictions; tariffs; currency exchange rates; any disruptions in our suppliers' logistics or supply chain networks or information technology systems; raw material or other shortages; and other factors beyond our or our suppliers' control. If we are unable to access products to meet our customers' demands and expectations in a timely and efficient manner, our sales and gross margin results may be adversely impacted.

Failure to achieve and maintain a high level of product and service quality and safety and ensure compliance with responsible sourcing laws and standards could damage our reputation with

customers, expose us to litigation or enforcement actions, and negatively impact our sales and results of operations.

Product and service quality issues could negatively impact customer confidence in our brands and our Company. If our product and service offerings do not meet applicable product standards or our customers' expectations regarding safety or quality, we could experience lost sales and increased costs and be exposed to legal, financial and reputational risks, as well as governmental enforcement actions. Actual, potential or perceived product safety concerns, including health-related concerns, could expose us to litigation or government enforcement actions, and could result in costly product recalls and other liabilities. We seek but may not be successful in obtaining contractual indemnification and insurance coverage from our suppliers and service providers. If we do not have adequate contractual indemnification or insurance available, such claims could have an adverse effect on our business, financial condition and results of operations. Even with adequate insurance and indemnification, our reputation as a provider of high-quality products and services, including both national brand names and our proprietary products, could suffer, damaging our reputation and impacting customer loyalty. In addition, we and our customers have expectations around responsible sourcing, which is an increasing focus of government regulators as well. All of our suppliers must comply with our responsible sourcing standards, which cover a variety of expectations across multiple areas of social compliance, including supply chain transparency, health and safety, environment, compensation, hours of work, and prohibitions on child and forced labor. We have a responsible sourcing audit process, but we are also dependent on our suppliers to ensure that the products and services we provide comply with our standards and applicable law. Actual, potential or perceived supplier non-compliance could expose us to litigation or governmental enforcement actions, and could result in costly product recalls and other liabilities.

Our proprietary products subject us to certain increased risks, including regulatory, product liability, intellectual property, supplier relations, and reputational risks.

In addition to other product-related risks discussed in this section, as we expand our proprietary product offerings, we may become subject to increased risks due to our greater role in the design, manufacture, marketing and sale of those products. The risks include greater responsibility to administer and comply with applicable regulatory requirements, increased potential product liability and product recall exposure, and increased potential reputational risks related to the responsible sourcing of those products. To effectively execute on our product differentiation strategy, we must also be able to successfully protect our proprietary rights and successfully navigate and avoid claims related to the proprietary rights of third parties. In addition, an increase in sales of our proprietary products may adversely affect sales of our suppliers' products, which in turn could adversely affect our relationships with certain of our suppliers. Any failure to appropriately address some or all of these risks could damage our reputation and have an adverse effect on our business, results of operations, and financial condition.

If we are unable to effectively manage our installation services business, we could suffer lost sales and be subject to fines, lawsuits and reputational damage, or the loss of our general contractor licenses.

We act as a general contractor to provide installation services to our DIFM customers through professional third-party licensed and insured installers. As such, we are subject to regulatory requirements and risks applicable to general contractors, which include management of licensing, permitting, and handling of environmental risks, as well as quality of work performed by our third-party installers. We have established processes and procedures to manage these requirements and manage customer satisfaction with the services provided by our third-party installers. However, as we experienced in part with our recent EPA investigation and resulting consent decree in April 2021, if we fail to manage these processes effectively, collect the appropriate documentation, perform regular job site inspections, or provide proper oversight of these services, we could suffer lost sales, fines, lawsuits, or governmental enforcement actions for violations of regulatory requirements, as well as claims for property damage or personal injury. In addition, we may suffer damage to our reputation or the loss of our general contractor licenses, which could adversely affect our business.

Legal, Financial, Regulatory, Global and Other External Risks

Uncertainty regarding the housing market, economic conditions, political and social climate, public health issues, and other factors beyond our control could adversely affect demand for our products and services, our costs of doing business, and our financial performance.

Our financial performance depends significantly on the stability of the housing and home improvement markets, as well as general economic conditions, including changes in gross domestic product. Adverse conditions in or uncertainty about these markets, the economy or the political or social climate could adversely impact our customers' confidence or financial condition, causing them to decide against purchasing home improvement products and services, causing them to delay purchasing decisions, or impacting their ability to pay for products and services. Other factors beyond our control – including unemployment and foreclosure rates; inventory loss due to theft; interest rate fluctuations; inflation or deflation; fuel and other energy costs; raw material or other shortages; labor and healthcare costs; the availability of financing; the state of the credit markets, including mortgages, home equity loans and consumer credit; changes in tax rates and policy; weather; natural disasters; climate change; acts of terrorism or violence, including active shooter situations; public health issues, including pandemics and quarantines and related shut-downs, re-openings, or other actions by government regulators or others; military conflicts or acts of war, as well as any related sanctions or other government or private responses; and civil unrest, could further adversely affect demand for our products and services, our costs of doing business, and our financial performance. Certain merchandise categories have been impacted by higher inflation than that which we have experienced in recent years due to, among other things, the continuing impacts of the COVID-19 pandemic, related global supply chain disruptions, and the uncertain economic and geopolitical environment. If inflation increases costs beyond our ability to control, we may not be able to adjust prices or use our portfolio strategy to sufficiently offset the effect without negatively impacting consumer demand or our gross margin. Further, our MRO customers, who have higher spend and longer-term relationships than a typical retail customer, primarily use trade credit to finance their purchases, and some of our Pros use trade credit in order to purchase our products. As a result, their ability to pay is highly dependent on the economic strength of the industry in their area. If these customers are unable to repay the trade credit from us, we may face greater default risk, which could reduce our cash flow and adversely affect our results of operations.

The continuing impacts of the COVID-19 pandemic are highly unpredictable, volatile, and uncertain, and could adversely affect our business operations, demand for our products and services, our costs of doing business, availability of labor, access to inventory, supply chain operations, our ability to predict future performance, our exposure to litigation, and our financial performance, among other things.

The COVID-19 pandemic has caused significant public health concerns as well as economic disruption, uncertainty, and volatility, all of which have impacted and are expected to continue to impact our business. While we have taken numerous steps to mitigate the impact of the pandemic on our results of operations, there can be no assurance that these efforts will be successful. Even as efforts to contain the pandemic, including vaccinations, have fostered progress, and as some restrictions have relaxed, new variants of the virus have caused additional outbreaks, which has introduced additional uncertainty and volatility. Due to numerous uncertainties and factors beyond our control, we are unable to predict the impact that the pandemic and recovery efforts will have going forward on our business, results of operations, cash flows, and financial condition. These factors and uncertainties include, but are not limited to:

- the severity and duration of the pandemic, including whether there are additional “waves” or other continued periods of increases or spikes in the number of COVID-19 cases (including those caused by current or future mutations of the virus or related variants) in future periods in areas in which we or our suppliers operate;
- the rapidly changing and fluid circumstances caused by the pandemic and efforts to contain and recover from it and our ability to respond quickly enough or appropriately to those circumstances;
- the duration and degree of governmental, business or other actions in response to the pandemic, including but not limited to quarantine or shut-down measures and other governmental orders; masking, vaccination or testing requirements; restrictions on our operations up to and including complete or partial closure of our stores, facilities, and distribution and fulfillment centers; economic measures; access to unemployment compensation; fiscal policy changes; or additional measures that may yet be enacted;
- the health of, and effect of the pandemic on, our associates and our ability to maintain staffing needs to effectively operate our business, including the impact of and uncertainty related to vaccination or testing efforts;
- changes in labor markets affecting us and our suppliers, including labor shortages;
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates, inflation and deflation, rising interest rates, and recessionary pressures;
- the impact of the pandemic and related economic uncertainty on consumer confidence, economic well-being, spending, and shopping behaviors, both during and after the pandemic;
- impacts – financial, operational or otherwise – on our supply chain, including manufacturers or suppliers of our products and logistics or transportation providers, and on our service providers, subcontractors, or other business partners;
- unknown consequences on our business performance and strategic initiatives stemming from the substantial investment of time and other resources to the pandemic response;

- the incremental costs of doing business during and/or after the pandemic, including the potential costs of ongoing testing requirements;
- volatility in the credit and financial markets during and after the pandemic;
- the effects on our internal control environment and data security as a result of the remote and hybrid work environment;

- the impact of regulatory and judicial changes in liability for workers' compensation;
- potential increases in insurance premiums, medical claims costs, and workers' compensation claim costs;
- the availability of, and prevalence of access to, effective medical treatments and vaccines for COVID-19;
- the impact of litigation or claims from customers, associates, suppliers, regulators or other third parties relating to COVID-19 or our actions in response thereto;
- the pace and extent of recovery as the pandemic subsides; and
- the long-term impact of the pandemic on our business even after the pandemic subsides.

In addition, we have seen an increase in spending on home improvement products and projects during the pandemic. As the pandemic subsides, customers may shift more of their spending away from home improvement and back to other areas, which may have an adverse impact on our sales.

The above factors and uncertainties, or others of which we are not currently aware, may result in adverse impacts to our business, results of operations, cash flows, and financial condition. In addition to the factors above, the COVID-19 pandemic has subjected our business to a number of risks, including, but not limited to those discussed below and elsewhere in these Risk Factors:

Associate and Customer Safety-Related Risks. In response to the COVID-19 pandemic, we have taken a number of actions across our business to help protect our associates, customers, and others in the communities we serve. These measures included, among other things, increased cleaning and sanitizing measures; physical and social distancing efforts; continuing curbside pickup from stores; and modification of certain annual merchandising events. In certain jurisdictions, we temporarily ceased sales or delayed commencement of certain in-home services deemed non-essential early in the pandemic, and we may have to do so again or in other jurisdictions. Several of these actions adversely impacted our sales, and they may continue to do so going forward. We also took other steps to support our associates, including expanding certain compensation and benefits to help alleviate some of the challenges our associates were facing as a result of COVID-19. While we have transitioned from many of these temporary pay and benefits programs, the actions that we have taken in response to the pandemic resulted in significant incremental costs, and we expect that we will continue to incur additional costs due to the pandemic going forward, which in turn may have an adverse impact on our results of operations.

The health and safety of our associates and customers are of primary concern to our management team. However, due to the unpredictable nature of COVID-19 and the consequences of our actions, we may see unexpected outcomes from our added safety measures or from rolling back safety measures as conditions evolve. For example, if we do not respond appropriately to the pandemic, or if our customers or associates do not participate in social distancing, vaccination efforts, and other safety measures, or if rolling back safety measures results in additional outbreaks, the well-being of our associates and customers could be at risk. Furthermore, any failure to appropriately respond, or the perception of an inadequate response, could cause reputational harm to our brand and/or subject us to claims and litigation from associates, customers, suppliers, regulators or other third parties. Additionally, we have faced, and may continue to face, periodic labor shortages at our stores and facilities due to COVID-19, which can result in modifications to our operations including temporary closures and negatively impact our business, costs and results of operations.

Additionally, some jurisdictions have taken measures intended to expand the availability of workers' compensation or to change the presumptions applicable to workers compensation measures. These actions may increase our exposure to workers' compensation claims and increase our cost of insurance.

Information Technology-Related Risks. As a result of the pandemic and related quarantines, shut-down orders, and similar restrictions, we have experienced increased demand for online purchases of products. While we have managed this increased volume to date without interruption, there are no assurances that we will continue to be able to do so. We have also had to rapidly modify certain technology systems to support our interconnected offerings in connection with the pandemic, such as the addition of curbside pickup. Disruptions, failures or other performance issues with our customer-facing technology systems, either due to increased volume, system modifications, or other factors, could impair the benefits they provide, adversely impact our sales, and negatively affect our relationship with our customers. In addition, as more business activities have shifted online as a result of the COVID-19 pandemic, and as many of our store support associates continue to work in a remote or hybrid environment, we face an increased risk due to the potential failure of internal or external information technology infrastructure as well as increased cybersecurity threats and attempts to breach our security networks.

Supply Chain-Related Risks. Circumstances related to the COVID-19 pandemic have significantly impacted the global supply chain, with restrictions and limitations on business activities and impacts of the COVID-19 pandemic causing cost increases, labor shortages, capacity constraints, disruptions and delays. These issues, which may continue or expand depending on the progression of the pandemic, are placing strain on the domestic and international supply chain, which has affected and may continue to negatively affect the flow or availability of certain products. Customer demand for certain products has also fluctuated as the pandemic has progressed and customer behaviors have changed, which has challenged our ability to anticipate and/or adjust inventory levels to meet that demand. These factors have resulted in higher out-of-stock inventory positions in certain products as well as delays in delivering those products to our distribution and fulfillment centers, stores or customers. Even if we are able to find alternate sources for certain products, they may cost more or require us to incur higher transportation costs, which could adversely impact our profitability and financial condition. Similarly, increased demand for online purchases of products has impacted our fulfillment operations, as well as those of our third-party carriers, resulting in delays in delivering products to customers. The operation of our distribution and fulfillment centers is crucial to our business operations. We have experienced, and may continue to experience, labor shortages at and temporary closures of some of our distribution and fulfillment centers, and any such labor shortages or closures, whether temporary or sustained, may adversely impact the flow or availability of products to our stores and customers. Any of these circumstances could impair our ability to meet customer demand for products and result in lost sales, increased supply chain costs, or damage to our reputation.

To the extent the COVID-19 pandemic and related recovery efforts continue to adversely affect the U.S. and global economy and/or to adversely affect our business, results of operations, cash flows, or financial condition, it may also have the effect of heightening other risks described in this section and other SEC filings, including but not limited to those related to consumer behavior and expectations, competition, brand and reputation, implementation of strategic initiatives, cybersecurity threats, technology systems disruption, supply chain disruptions, labor availability and cost, litigation, and regulatory requirements.

Our costs of doing business could increase as a result of changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations.

We are subject to various federal, state and local laws and regulations that govern numerous aspects of our business. In recent years, a number of new laws and regulations have been adopted, there has been expanded enforcement of certain existing laws and regulations by federal, state and local agencies, and the interpretation of certain laws and regulations have become increasingly complex. These laws and regulations, and related interpretations and enforcement activity, may change as a result of a variety of factors, including political, economic or social events. Changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations governing minimum wage or living wage requirements; the classification of exempt and non-exempt employees; the distinction between employees and contractors; other wage, labor or workplace regulations; healthcare; data privacy and cybersecurity; the sale, marketing, sourcing, and pricing of some of our products; transportation, logistics and interstate delivery operations, including Department of Transportation regulations on vehicles and drivers; international trade; supply chain transparency; taxes, including changes to corporate tax rates; restrictions on carbon dioxide and other greenhouse gas emissions; competition and antitrust requirements; ESG performance, transparency and reporting; unclaimed property; energy costs and consumption; or hazardous waste disposal and other environmental matters, including with respect to our installation services business, could increase our costs of doing business or impact our sales, operations or profitability.

If we cannot successfully manage the unique challenges presented by international markets, we may not be successful in our international operations and our sales and profitability may be negatively impacted.

Our ability to successfully conduct retail operations in, and source products and materials from, international markets is affected by many of the same risks we face in our U.S. operations, as well as unique costs and difficulties of managing international operations. Our international operations, including any expansion in international markets, may be adversely affected by local laws and customs, U.S. laws applicable to foreign operations and other foreign legal and regulatory constraints, as well as political, social and economic conditions. Risks inherent in international operations also include, among others, potential adverse tax consequences; international trade disputes, trade policy changes or potential tariffs and other import-related taxes and controls; greater difficulty in enforcing intellectual property rights;

limitations on access to ports; risks associated with the Foreign Corrupt Practices Act and local anti-bribery law compliance; military conflicts or acts of war, as well as any related sanctions or other government or private responses; compliance with forced labor laws; and challenges in our ability to identify and gain access to local suppliers. For example, trade tensions between the U.S. and China have led to a series of significant tariffs on the importation of certain product categories. As a portion of our retail products are sourced, directly or indirectly, outside of the U.S., major changes in tax or trade policies, tariffs or trade relations could adversely impact the cost of, demand for, and profitability of retail product sales in our U.S. locations.

Other countries may also change their business and trade policies in anticipation of or in response to increased import tariffs and other changes in U.S. trade policy and regulations. In addition, our operations in international markets create risk due to foreign currency exchange rates and fluctuations in those rates, which may adversely impact our sales and profitability.

The inflation or deflation of commodity and other prices could affect our prices, demand for our products, our sales and our profit margins.

Prices of certain commodity products, including lumber and other raw materials, are historically volatile and are subject to fluctuations arising from changes in domestic and international supply and demand, inflationary pressures, labor costs, competition, market speculation, government regulations, tariffs and trade restrictions, natural disasters, and periodic delays in delivery. In addition, Russia's invasion of Ukraine and other geopolitical conflicts, as well as any related international response, may exacerbate inflationary pressures, including causing increases in commodity prices as well as fuel and other energy costs. Rapid and significant changes in commodity and other prices, such as changes in lumber prices, and our ability to pass them on to our customers or manage them through our portfolio strategy, may affect the demand for our products, our sales and our profit margins.

We may incur property, casualty or other losses not covered by our insurance.

We are predominantly self-insured for a number of different risk categories, such as general liability (including product liability), workers' compensation, employee group medical, automobile claims, and network security and privacy liability, with insurance coverage for certain catastrophic risks. The types and amounts of insurance may vary from time to time based on our decisions with respect to risk retention and regulatory requirements. The occurrence of significant claims, a substantial rise in costs to maintain our insurance, or the failure to maintain adequate insurance coverage could have an adverse impact on our financial condition and results of operations.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results or financial condition.

GAAP and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, such as asset impairment, inventories, lease obligations, self-insurance, vendor allowances, tax matters, business combinations, and litigation, are complex and involve many subjective assumptions, estimates and judgments. Changes in accounting standards or their interpretation or changes in underlying assumptions, estimates or judgments, including due to uncertainty in the current environment resulting from the COVID-19 pandemic, could significantly change our reported or expected financial performance or financial condition. The implementation of new accounting standards could also require certain systems, internal process, internal controls, and other changes that could increase our operating costs.

We are involved in a number of legal, regulatory and governmental enforcement proceedings, and while we cannot predict the outcomes of those proceedings and other contingencies with certainty, some of these outcomes may adversely affect our operations or increase our costs.

We are involved in a number of legal proceedings and regulatory matters, including government inquiries and investigations, and consumer, employment, tort and other litigation that arise from time to time in the ordinary course of business. Litigation is inherently unpredictable, and the outcome of some of these proceedings and other contingencies could require us to take or refrain from taking actions which could adversely affect our operations or could result in excessive adverse verdicts or results. Additionally, involvement in these lawsuits, investigations and inquiries, and other proceedings, as well as compliance with any settlements or consent decrees that result from those proceedings, may involve significant expense, divert management's attention and resources from other matters, and impact the reputation of the Company.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The following table presents the percentage of our owned versus leased facilities in operation at the end of fiscal 2021, along with the total square footage:

square footage in millions	Owned	Leased	Total Square Footage
Stores [1]	89 %	11 %	240.5
Warehouses and distribution centers	5 %	95 %	88.5
Offices and other	21 %	79 %	5.3
Total			334.3

(1) *Our owned stores include those subject to ground leases.*

The following table presents our U.S. store locations (including the Commonwealth of Puerto Rico and the territories of the U.S. Virgin Islands and Guam) at the end of fiscal 2021:

U.S.	Stores	U.S.	Stores
Alabama	28	Montana	6
Alaska	7	Nebraska	8
Arizona	56	Nevada	21
Arkansas	14	New Hampshire	20
California	247	New Jersey	67
Colorado	46	New Mexico	13
Connecticut	30	New York	101
Delaware	9	North Carolina	40
District of Columbia	1	North Dakota	2
Florida	156	Ohio	70
Georgia	90	Oklahoma	16
Guam	1	Oregon	27
Hawaii	7	Pennsylvania	70
Idaho	11	Puerto Rico	10
Illinois	76	Rhode Island	8
Indiana	24	South Carolina	26
Iowa	10	South Dakota	1
Kansas	16	Tennessee	39
Kentucky	14	Texas	181
Louisiana	28	Utah	22
Maine	11	Vermont	3
Maryland	41	Virgin Islands	2
Massachusetts	45	Virginia	50
Michigan	70	Washington	46
Minnesota	33	West Virginia	6
Mississippi	14	Wisconsin	27
Missouri	34	Wyoming	5
		Total U.S.	2,006

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The following table presents our store locations outside of the U.S. at the end of fiscal 2021:

Canada	Stores	Mexico	Stores
Alberta	27	Aguascalientes	2
British Columbia	26	Baja California	6
Manitoba	6	Baja California Sur	2
New Brunswick	3	Campeche	2
Newfoundland	1	Chiapas	2
Nova Scotia	4	Chihuahua	6
Ontario	88	Coahuila	5
Prince Edward Island	1	Colima	2
Quebec	22	Distrito Federal	10
Saskatchewan	4	Durango	1
Total Canada	182	Guanajuato	5
		Guerrero	2
		Hidalgo	1
		Jalisco	8
		Michoacán	4
		Morelos	3
		Nayarit	1
		Nuevo León	11
		Oaxaca	1
		Puebla	5
		Querétaro	5
		Quintana Roo	3
		San Luis Potosí	2
		Sinaloa	5
		Sonora	4
		State of Mexico	16
		Tabasco	1
		Tamaulipas	5
		Tlaxcala	1
		Veracruz	5
		Yucatán	2
		Zacatecas	1
		Total Mexico	129

Item 3. Legal Proceedings.

The Company is party to various legal proceedings arising in the ordinary course of its business, but is not currently a party to any legal proceeding that management believes will have a material adverse effect on our consolidated financial position or our results of operations.

SEC regulations require us to disclose certain information about proceedings arising under federal, state or local environmental regulations if we reasonably believe that such proceedings may result in monetary sanctions above a stated threshold. Pursuant to SEC regulations, the Company uses a threshold of $1 million for purposes of determining whether disclosure of any such proceedings is required.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Since April 19, 1984, our common stock has been listed on the NYSE, trading under the symbol "HD." We paid our first cash dividend on June 22, 1987 and have paid a cash dividend during each subsequent quarter. While we currently expect a cash dividend to be paid in the future, future dividend payments will depend on our earnings, capital requirements, financial condition, and other factors considered relevant by our Board of Directors.

At March 4, 2022, there were approximately 111,000 holders of record of our common stock and approximately 4,485,000 additional "street name" holders whose shares are held of record by banks, brokers, and other financial institutions.

Stock Performance Graph

The graph and table below present our cumulative total shareholder returns relative to the performance of the S&P Retail Composite Index and the S&P 500 Index for the five most recent fiscal years. The graph assumes $100 was invested at the closing price of our common stock on the NYSE and in each index on the last trading day of the fiscal year ended January 29, 2017 and assumes that all dividends were reinvested on the date paid. The points on the graph represent fiscal year-end amounts based on the last trading day in each fiscal year.

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The Home Depot — S&P Retail Composite Index — S&P 500 Index

	Fiscal Year Ended					
	January 29, 2017	January 28, 2018	February 3, 2019	February 2, 2020	January 31, 2021	January 30, 2022
The Home Depot	$ 100.00	$ 153.26	$ 139.40	$ 177.14	$ 215.37	$ 297.56
S&P Retail Composite Index	100.00	145.23	152.92	184.44	260.77	276.14
S&P 500 Index	100.00	127.70	122.75	149.19	174.90	211.61

Issuer Purchases of Equity Securities

The following table presents the number and average price of shares purchased in each fiscal month of the fourth quarter of fiscal 2021:

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share [1]	Total Number of Shares Purchased as Part of Publicly Announced Program [2]	Dollar Value of Shares that May Yet Be Purchased Under the Program [2]
November 1, 2021 – November 28, 2021	2,801,959	$ 383.25	2,798,832	$ 13,046,780,078
November 29, 2021 – December 26, 2021	2,813,311	403.26	2,811,837	11,912,896,596
December 27, 2021 – January 30, 2022	5,986,275	383.38	5,985,018	9,618,369,279
Total	11,601,545	388.17	11,595,687	

(1) *These amounts include repurchases pursuant to our Amended and Restated 2005 Omnibus Stock Incentive Plan and our 1997 Omnibus Stock Incentive Plan (collectively, the "Plans"). Under the Plans, participants may surrender shares as payment of applicable tax withholding on the vesting of restricted stock. 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 May 2021, our Board of Directors approved a $20.0 billion share repurchase authorization that replaced the previous authorization. This new authorization does not have a prescribed expiration date.*

Sales of Unregistered Securities

During the fourth quarter of fiscal 2021, we issued 327 deferred stock units under the Home Depot, Inc. Nonemployee Directors’ Deferred Stock Compensation Plan pursuant to the exemption from registration provided by Section 4(a)(2) of 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 fourth quarter of fiscal 2021. 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.

During the fourth quarter of fiscal 2021, we credited 705 deferred stock units to participant accounts under the 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 a termination of service as described in this plan.

Item 6. Reserved.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our MD&A includes the following sections:

- Executive Summary
- Results of Operations
- Liquidity and Capital Resources
- Critical Accounting Policies

Executive Summary

The following table presents highlights of our annual financial performance:

dollars in millions, except per share data		Fiscal 2021		Fiscal 2020		Fiscal 2019
Net sales	$	151,157	$	132,110	$	110,225
Net earnings		16,433		12,866		11,242
Diluted earnings per share	$	15.53	$	11.94	$	10.25
Net cash provided by operating activities	$	16,571	$	18,839	$	13,687
Payments for businesses acquired, net		421		7,780		—
Proceeds from long-term debt, net of discounts and premiums		2,979		7,933		3,420
Repayments of long-term debt		1,532		2,872		1,070
Repurchases of common stock		14,809		791		6,965

We reported net sales of $151.2 billion in fiscal 2021. Net earnings were $16.4 billion, or $15.53 per diluted share. We opened five new stores in the U.S. and two new stores in Mexico during fiscal 2021, resulting in a total store count of 2,317 at January 30, 2022, which includes 14 stores in the U.S. from a small acquisition completed during the second quarter of fiscal 2021. At the end of fiscal 2021, a total of 311 of our stores, or 13.4%, were located in Canada and Mexico. Total sales per retail square foot were $604.74 in fiscal 2021. Our inventory turnover ratio was 5.2 times at the end of fiscal 2021, compared to 5.8 times at the end of fiscal 2020. The decrease in our inventory turnover ratio was primarily driven by an increase in average inventory levels during fiscal 2021 to support the demand environment.

We generated $16.6 billion of cash flow from operations, issued $3.0 billion of long-term debt, net of discounts, and received $1.0 billion of net proceeds from short-term debt during fiscal 2021. This cash flow, together with cash on hand, was used to fund cash payments of $14.8 billion for share repurchases, pay $7.0 billion of dividends, fund $2.6 billion in capital expenditures, and repay an aggregate of $1.5 billion of long-term debt. In February 2022, we announced a 15% increase in our quarterly cash dividend to $1.90 per share.

Our ROIC was 44.7% for fiscal 2021 and 40.8% for fiscal 2020. See the "Non-GAAP Financial Measures" section below for our definition and calculation of ROIC, as well as a reconciliation of NOPAT, a non-GAAP financial measure, to net earnings (the most comparable GAAP financial measure).

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Results of Operations

The tables and discussion below should be read in conjunction with our consolidated financial statements and related notes included in this report. The following table presents the percentage relationship between net sales and major categories in our consolidated statements of earnings:

dollars in millions	Fiscal 2021 $	Fiscal 2021 % of Net Sales	Fiscal 2020 $	Fiscal 2020 % of Net Sales	Fiscal 2019 $	Fiscal 2019 % of Net Sales
Net sales	$ 151,157		$ 132,110		$ 110,225	
Gross profit	50,832	33.6 %	44,853	34.0 %	37,572	34.1 %
Operating expenses:						
Selling, general and administrative	25,406	16.8	24,447	18.5	19,740	17.9
Depreciation and amortization	2,386	1.6	2,128	1.6	1,989	1.8
Total operating expenses	27,792	18.4	26,575	20.1	21,729	19.7
Operating income	23,040	15.2	18,278	13.8	15,843	14.4
Interest and other (income) expense:						
Interest and investment income	(44)	—	(47)	—	(73)	(0.1)
Interest expense	1,347	0.9	1,347	1.0	1,201	1.1
Interest and other, net	1,303	0.9	1,300	1.0	1,128	1.0
Earnings before provision for income taxes	21,737	14.4	16,978	12.9	14,715	13.3
Provision for income taxes	5,304	3.5	4,112	3.1	3,473	3.2
Net earnings	$ 16,433	10.9 %	$ 12,866	9.7 %	$ 11,242	10.2 %

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

Selected financial and sales data:	Fiscal 2021	Fiscal 2020	Fiscal 2019	% Change Fiscal 2021 vs. 2020	% Change Fiscal 2020 vs. 2019
Comparable sales (% change)	11.4 %	19.7 %	3.5 %	N/A	N/A
Comparable customer transactions (% change) (1)	(0.1)%	8.6 %	1.1 %	N/A	N/A
Comparable average ticket (% change) (1)	11.7 %	10.5 %	2.5 %	N/A	N/A
Customer transactions (in millions) (1)	1,759.7	1,756.3	1,616.0	0.2 %	8.7 %
Average ticket (1) (2)	$83.04	$74.32	$67.30	11.7 %	10.4 %
Sales per retail square foot (1) (3)	$604.74	$543.74	$454.82	11.2 %	19.6 %
Diluted earnings per share	$15.53	$11.94	$10.25	30.1 %	16.5 %

(1) *Does not include results for HD Supply, including the legacy Interline Brands business, which was integrated into HD Supply during the fourth quarter of fiscal 2021.*

(2) *Average ticket represents the average price paid per transaction and is used by management to monitor the performance of the Company, as it represents a primary driver in measuring sales performance.*

(3) *Sales per retail square foot represents sales divided by retail store square footage. Sales per retail square foot is a measure of the efficiency of sales based on the total square footage of our stores and is used by management to monitor the performance of the Company's retail operations as an indicator of the productivity of owned and leased square footage for these retail operations.*

Fiscal 2021 Compared to Fiscal 2020

Sales. We assess our sales performance by evaluating both net sales and comparable sales.

Net Sales. Net sales for fiscal 2021 increased $19.0 billion, or 14.4%, to $151.2 billion. The increase in net sales for fiscal 2021 primarily reflected the impact of positive comparable sales driven by an increase in comparable average ticket, as well as sales from HD Supply, which was acquired in the fourth quarter of fiscal 2020. In fiscal 2021, we saw continued elevated home improvement demand, which began at the end of the first quarter of fiscal 2020, with strong performance across our departments as customers continued to focus on home improvement projects and repairs. A weaker U.S. dollar positively impacted sales growth by $760 million in fiscal 2021.

Online sales, which consist of sales generated online through our websites for products picked up in our stores or delivered to customer locations, represented 13.7% of net sales and grew by 9.4% during fiscal 2021 compared to fiscal 2020. The increase in online sales in fiscal 2021 was driven by customers continuing to leverage our digital platforms for their shopping needs.

Comparable Sales. Comparable sales is a measure that highlights the performance of our existing locations and websites by measuring the change in net sales for a period over the comparable prior-period of equivalent length. Comparable sales includes sales at all locations, physical and online, open greater than 52 weeks (including remodels and relocations) and excludes closed stores. Retail stores become comparable on the Monday following their 52nd week of operation. Acquisitions are typically included in comparable sales after they have been owned for more than 52 weeks. Comparable sales is intended only as supplemental information and is not a substitute for net sales presented in accordance with GAAP.

Total comparable sales increased 11.4% in fiscal 2021, reflecting an 11.7% increase in comparable average ticket and nearly flat comparable customer transactions when compared to fiscal 2020. The increase in comparable sales reflected a number of factors, including strong home improvement demand and benefits from our strategic efforts to drive an enhanced interconnected experience in both the physical and digital worlds, as well as inflation. The increase in comparable average ticket was primarily driven by inflation, an increase in big-ticket transactions, elevated project demand, and strong demand for new and innovative products.

During fiscal 2021, all of our merchandising departments posted positive comparable sales and 10 of our 14 merchandising departments posted double-digit positive comparable sales led by Kitchen and Bath and Lumber when compared to fiscal 2020. Our Outdoor Garden, Hardware, Indoor Garden, and Paint departments had single-digit positive comparable sales when compared to fiscal 2020.

Gross Profit. Gross profit increased $6.0 billion, or 13.3%, to $50.8 billion in fiscal 2021. Gross profit as a percent of net sales, or gross profit margin, was 33.6% in fiscal 2021 compared to 34.0% in fiscal 2020. The decrease in gross profit margin reflected pressure from product mix, investments in our supply chain network, and higher product and transportation costs offset by the benefit from higher retail prices.

Operating Expenses. Our operating expenses are composed of SG&A and depreciation and amortization.

Selling, General & Administrative. SG&A increased $1.0 billion, or 3.9%, to $25.4 billion in fiscal 2021. As a percent of net sales, SG&A was 16.8% for fiscal 2021 compared to 18.5% for fiscal 2020. The decrease in SG&A as a percent of net sales for fiscal 2021 was primarily driven by leverage resulting from a positive comparable sales environment along with cycling total COVID-19-related expenses of $2.1 billion and transaction-related expenses associated with the acquisition of HD Supply of $110 million incurred during fiscal 2020. These benefits were partially offset by an increase in hourly payroll-related costs in fiscal 2021, primarily driven by wage investments we made in the latter part of fiscal 2020 and throughout fiscal 2021. Total COVID-19-related expenses incurred during fiscal 2021 were $262 million.

Depreciation and Amortization. Depreciation and amortization increased $258 million, or 12.1%, to $2.4 billion in fiscal 2021. As a percent of net sales, depreciation and amortization was 1.6% for both fiscal 2021 and fiscal 2020, primarily reflecting leverage resulting from a positive comparable sales environment, offset by increased depreciation expense from strategic investments in the business as well as higher intangible asset amortization expense.

Interest and Other, net. Interest and other, net, was $1.3 billion for both fiscal 2021 and fiscal 2020. Interest and other, net, as a percent of net sales was 0.9% for fiscal 2021 compared to 1.0% for fiscal 2020, primarily reflecting leverage resulting from a positive comparable sales environment.

Provision for Income Taxes. Our combined effective income tax rate was 24.4% for fiscal 2021 compared to 24.2% for fiscal 2020.

Diluted Earnings per Share. Diluted earnings per share were $15.53 for fiscal 2021 compared to $11.94 for fiscal 2020. The increase in diluted earnings per share for fiscal 2021 was primarily driven by the factors discussed above, as well as share repurchases.

Fiscal 2020 Compared to Fiscal 2019

For a comparison of our results of operations for fiscal 2020 to fiscal 2019, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Form 10-K for fiscal 2020.

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Non-GAAP Financial Measures

To provide clarity 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 ROIC is meaningful for investors and management because it measures how effectively we deploy our capital base. We define ROIC as NOPAT, a non-GAAP financial measure, for the most recent twelve-month period, divided by average debt and equity. We define average debt and equity as the average of beginning and ending long-term debt (including current installments) and equity for the most recent twelve-month period.

The following table presents the calculation of ROIC, together with a reconciliation of NOPAT to net earnings (the most comparable GAAP measure):

dollars in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Net earnings	$ 16,433	$ 12,866	$ 11,242
Interest and other, net	1,303	1,300	1,128
Provision for income taxes	5,304	4,112	3,473
Operating income	23,040	18,278	15,843
Income tax adjustment (1)	(5,622)	(4,423)	(3,739)
NOPAT	$ 17,418	$ 13,855	$ 12,104
Average debt and equity (2)	$ 38,946	$ 33,964	$ 26,686
ROIC	44.7 %	40.8 %	45.4 %

(1) *Income tax adjustment is defined as operating income multiplied by our effective tax rate for the trailing twelve months.*

(2) *The beginning balance of equity for fiscal 2019 was adjusted to reflect an immaterial opening balance sheet adjustment due to the adoption of Accounting Standards Codification Topic 842, Leases, in fiscal 2019.*

Liquidity and Capital Resources

At January 30, 2022, we had $2.3 billion in cash and cash equivalents, of which $1.3 billion was held by our foreign subsidiaries. We believe that our current cash position, cash flow generated from operations, funds available from our commercial paper programs, and access to the long-term debt capital markets should be sufficient not only for our operating requirements but also to enable us to invest in the business through capital expenditures, fund dividend payments, fund any share repurchases, make any required debt payments, and satisfy other contractual obligations through the next several fiscal years. In addition, we believe we have the ability to obtain alternative sources of financing, if necessary.

Our material cash requirements include contractual and other obligations arising in the normal course of business. These obligations primarily include long-term debt and related interest payments, operating and finance lease obligations, and purchase obligations. See below for additional details regarding these material cash requirements.

In addition to our cash requirements, we follow a disciplined approach to capital allocation. This approach first prioritizes investing in the business, with the intent of then returning excess cash to shareholders in the form of dividends and share repurchases. For fiscal 2022, we plan to invest approximately $3 billion back into our business in the form of capital expenditures, in line with our expectation of approximately two percent of net sales on an annual basis, compared to $2.6 billion in fiscal 2021. However, we may adjust our capital expenditures to support the operations of the business, to enhance long-term strategic positioning, or in response to the economic environment, as necessary or appropriate.

During fiscal 2021, we paid cash dividends of $7.0 billion to shareholders. In February 2022, we also announced a 15% increase in our quarterly cash dividend from $1.65 to $1.90 per share. We intend to pay a dividend in the future; however, any future dividend is subject to declaration by the Board of Directors based on our earnings, capital requirements, financial condition, and other factors considered relevant by our Board of Directors.

In May 2021, our Board of Directors approved a $20.0 billion share repurchase authorization, of which $9.6 billion remained available as of January 30, 2022. This new authorization replaced the previous authorization of $15.0 billion, which was approved in February 2019, and does not have a prescribed expiration date. During fiscal 2021, we had cash payments of $14.8 billion for repurchases of our common stock through open market purchases. The amount and continuation of our share repurchases will be influenced by the evolving economic environment and business conditions.

Debt

At January 30, 2022, we had commercial paper programs that allowed for borrowings up to $3.0 billion. In connection with these programs, we had back-up credit facilities with a consortium of banks for borrowings up to $3.0 billion at January 30, 2022, which consisted of a five-year $2.0 billion credit facility scheduled to expire in December 2023 and a 364-day $1.0 billion credit facility scheduled to expire in December 2022. In December 2021, we completed the renewal of our 364-day $1.0 billion credit facility, extending the maturity from December 2021 to December 2022. At January 30, 2022, there were $1.0 billion of outstanding borrowings under our commercial paper programs, and we were in compliance with all of the covenants contained in our credit facilities, none of which are expected to impact our liquidity or capital resources.

We also issue senior notes from time to time as part of our capital management strategy. In September 2021, we issued $3.0 billion of senior notes, and the net proceeds were used for general corporate purposes, including repurchases of shares of our common stock. We also repaid $1.35 billion of senior notes during fiscal 2021. At January 30, 2022, we had an aggregate principal amount of senior notes outstanding of $36.4 billion, with $2.3 billion payable within 12 months. Future interest payments associated with these senior notes total $20.9 billion, with $1.2 billion payable within 12 months, based on current interest rates, which include the impact of our active interest rate swap agreements.

The indentures governing our senior notes do not generally limit our ability to incur additional indebtedness or require us 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 our liquidity or capital resources. See Note 4 to our consolidated financial statements for further discussion of our debt arrangements.

Leases

We use operating and finance leases to fund a portion of our real estate, including our stores, distribution centers, and store support centers. At January 30, 2022, we had aggregate lease obligations of $12.6 billion, with $1.3 billion payable within 12 months. Aggregate lease obligations include $1.3 billion of obligations related to leases not yet commenced. See Note 3 to our consolidated financial statements for further discussion of our operating and finance leases.

Purchase Obligations and Other

Purchase obligations include all legally binding contracts such as firm commitments for inventory purchases, media and sponsorship spend, software acquisitions, license commitments, and legally binding service contracts. We issue inventory purchase orders in the ordinary course of business, which are typically cancellable by their terms, therefore we do not consider purchase orders that are cancellable to be firm inventory commitments. At January 30, 2022, we had aggregate purchase obligations of $2.1 billion, with $1.2 billion payable within 12 months.

At January 30, 2022, we had aggregate liabilities for unrecognized tax benefits totaling $570 million, none of which are expected to be paid in the next 12 months. The timing of payment, if any, associated with our long-term unrecognized tax benefit liabilities is unknown. See Note 5 to our consolidated financial statements for further discussion of our unrecognized tax benefits.

We have no material off-balance sheet arrangements.

Cash Flows Summary

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Operating Activities. Cash flow generated from operations provides us with a significant source of liquidity. Our operating cash flows result primarily from cash received from our customers, offset by cash payments we make for products and services, associate compensation, operations, occupancy costs, and income taxes.

Cash provided by or used in operating activities is also subject to changes in working capital. Working capital at any point in time is subject to many variables, including seasonality, inventory management and category expansion, the timing of cash receipts and payments, vendor payment terms, and fluctuations in foreign exchange rates.

Net cash provided by operating activities decreased by $2.3 billion in fiscal 2021 compared to fiscal 2020 and was primarily driven by changes in working capital, partially offset by an increase in net earnings. Working capital was impacted by higher merchandise inventories resulting from our efforts to continue to meet the demand environment and from higher product and transportation costs, along with timing of vendor payments.

Investing Activities. Cash used in investing activities decreased by $7.2 billion in fiscal 2021 compared to fiscal 2020, primarily due to $7.8 billion of net consideration paid to acquire HD Supply in fiscal 2020, partially offset by increased capital expenditures.

Financing Activities. Cash used in financing activities in fiscal 2021 primarily reflected $14.8 billion of share repurchases, $7.0 billion of cash dividends paid, and $1.5 billion of repayments of long-term debt, partially offset by $3.0 billion of net proceeds from long-term debt and $1.0 billion of net proceeds from short-term debt.

Cash used in financing activities in fiscal 2020 primarily reflected $6.5 billion of cash dividends paid, $2.9 billion of repayments of long-term debt, $974 million of net repayments of short-term debt, and $791 million for share repurchases prior to our suspension of share repurchases in March 2020, partially offset by $7.9 billion of net proceeds from long-term debt.

Critical Accounting Policies

Our significant accounting policies are disclosed in Note 1 to our consolidated financial statements. The following discussion addresses our most critical accounting policies, which are those that are both important to the representation of our financial condition and results of operations, and that require significant judgment or use of significant assumptions or complex estimates.

Merchandise Inventories

We value the majority of our inventory under the retail inventory method, using the first-in, first-out method, with the remainder of our inventories valued under a cost method. Under the retail inventory method, inventories are stated at cost, which is determined by applying a cost-to-retail ratio to the retail value of inventories.

The retail value of our inventory is adjusted as needed to reflect current market conditions. Because these adjustments are based on current prevailing market conditions, the value of our inventory approximates the lower of cost or market. The valuation under the retail inventory method is based on a number of factors such as markups, markdowns, and inventory losses (or shrink). As such, there exists an inherent uncertainty in the final determination of inventory cost and gross profit. We determine markups and markdowns based on the consideration of a variety of factors such as current and anticipated demand, customer preferences and buying trends, age of the merchandise, and weather conditions.

We calculate shrink based on actual inventory losses identified as a result of physical inventory counts during each fiscal period and estimated inventory losses between physical inventory counts. The estimate for shrink occurring in the interim period between physical inventory counts is calculated on a store-specific basis and is primarily based on recent shrink results. A 10% increase in the shrink rate used to estimate our inventory shrink reserve would have increased cost of sales by approximately $100 million for fiscal 2021. Historically, the difference between estimated shrink and actual inventory losses has not been material to our annual financial results.

Due to changes in operating conditions during fiscal 2020 as a result of the COVID-19 pandemic, we used the results from a sample of stores that were able to conduct physical inventories as a basis for estimating shrink for those stores at which physical inventory counts were temporarily suspended during fiscal 2020. We believe the sample of stores that were selected for inventory counts in fiscal 2020 provided a reasonable basis for estimating shrink where a physical inventory count was not performed in fiscal 2020. During fiscal 2021, we performed all regularly scheduled physical inventory counts, including store locations where physical inventory counts were suspended during fiscal 2020, and the difference between estimated shrink and actual inventory losses was not material.

We do not believe there is a reasonable likelihood for a material change in the estimates or assumptions we use to value our inventory under the retail inventory method. We believe that the retail inventory method provides an inventory valuation which approximates cost and results in valuing our inventory at the lower of cost or market.

Impairment of Long-Lived Assets

We evaluate our long-lived assets each quarter for indicators of potential impairment. Indicators of impairment include current period losses combined with a history of losses, our decision to relocate or close a store or other location before the end of its previously estimated useful life, or when changes in other circumstances indicate the carrying amount of an asset may not be recoverable. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The assets of a store with indicators of impairment are evaluated for recoverability by comparing their undiscounted future cash flows with their carrying value. Our cash flow projections look several years into the future and include assumptions of variables such as future sales and operating margin growth rates, economic conditions, market competition, and inflation.

If the carrying value is greater than the undiscounted future cash flows, we then measure the asset's fair value to determine whether an impairment loss should be recognized. If the resulting fair value is less than the carrying value, an impairment loss is recognized. For locations identified for closure or relocation, we generally base our estimates of fair market value on market appraisals of owned locations and estimates of the amount of potential sublease income and the time required to sublease for leased locations. For operating locations, we generally base our fair value estimates on future cash flow projections, as described above, and an appropriate discount rate to determine the present value of those future cash flows. Impairments of long-lived assets were not material to our consolidated financial statements in fiscal 2021, fiscal 2020 or fiscal 2019.

Uncertain Tax Positions

We are subject to income taxes in the United States and in multiple jurisdictions across our global operations. Thus, the determination of our provision for income taxes requires significant judgment, the use of estimates, and the interpretations and application of complex tax law. Our provision for income taxes could be affected by many factors, including changes in business operations, changes in tax law, outcomes of income tax audits, changes in our assessment of certain tax contingencies, the impact of discrete tax items, and the mix of earnings among our U.S. and foreign operations.

The calculation of our tax liabilities involves complexity and thus, there are many transactions and calculations for which the ultimate tax determination is uncertain. The assessment of uncertain tax positions requires the use of significant judgment in evaluating our tax positions and assessing the timing and amounts of deductible and taxable items. We record the benefits of uncertain tax positions in our financial statements only after determining a more likely than not probability that the uncertain tax positions will be sustained.

Business Combinations

We account for business combinations using the acquisition method of accounting, which requires that once control is obtained, all the assets acquired and liabilities assumed are recorded at their respective fair values at the date of acquisition. The determination of fair values of identifiable assets and liabilities requires estimates and the use of valuation techniques when market value is not readily available and requires a significant amount of management judgment. For the valuation of intangible assets acquired in a business combination, we typically use an income approach. Significant estimates in valuing certain intangible assets include, but are not limited to, the amount and timing of future cash flows, growth rates, customer attrition rates, discount rates and useful lives. The excess of the purchase price over fair values of identifiable assets acquired and liabilities assumed is recorded as goodwill. During the measurement period, which is up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Additional Information

For information on accounting pronouncements that have impacted or are expected to materially impact our financial condition, results of operations, or cash flows, see Note 1 to our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk. We have exposure to interest rate risk in connection with our long-term debt portfolio. We use interest rate swap agreements to manage our fixed/floating rate debt portfolio, none of which are for trading or speculative purposes. At January 30, 2022, after giving consideration to our interest rate swap agreements, floating rate debt principal was $5.7 billion, or approximately 16% of our senior notes portfolio, and the fair values of our interest rate swap agreements totaled $191 million. The changes in the fair values of our interest rate swap agreements offset the changes in the fair value of the hedged long-term debt. Based on our January 30, 2022 floating rate debt principal, a one percentage point increase in the interest rate of floating-rate debt would increase our annual interest expense by approximately $57 million.

The United Kingdom's Financial Conduct Authority announced the phased cessation of publication of LIBOR beginning after 2021 and continuing through 2023. While the discontinuance of LIBOR tenors that are scheduled to occur in 2023 will impact certain of our credit arrangements and interest rate swaps, we do not anticipate the transition to a new reference rate will have a material impact on our consolidated financial condition, results of operations, or cash flows.

Foreign Currency Exchange Rate Risk. We are 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. We use derivative and nonderivative instruments to hedge a portion of our foreign currency exchange rate risk, none of which are for trading or speculative purposes. Our foreign currency related hedging arrangements outstanding at the end of fiscal 2021 were not material.

Commodity Price Risk. We experience inflation and deflation related to our purchase of certain commodity products. This price volatility could potentially have a material impact on our financial condition and/or our results of operations. In order to mitigate price volatility, we monitor commodity price fluctuations and may adjust our selling prices accordingly; however, our ability to recover higher costs through increased pricing may be limited by the competitive environment in which we operate. We currently do not use derivative instruments to manage these risks.

Item 8. Financial Statements and Supplementary Data.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors
The Home Depot, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of The Home Depot, Inc. and subsidiaries (the Company) as of January 30, 2022 and January 31, 2021, the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the fiscal years in the three-year period ended January 30, 2022, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 30, 2022 and January 31, 2021, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended January 30, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 30, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 23, 2022 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Estimation of store shrink

As discussed in Note 1 to the consolidated financial statements, the majority of the Company's U.S. merchandise inventories are stated at the lower of cost (first-in, first out) or market as determined by the retail inventory method, which is based on a number of factors such as markups, markdowns, and inventory losses (or shrink). Shrink is the difference between the recorded amount of inventory and the physical inventory count. The Company calculates shrink based on actual inventory losses identified as a result of physical inventory counts during each fiscal period and estimated inventory losses occurring between physical inventory counts. The estimate for shrink occurring in the interim period between physical inventory counts is calculated on a store-specific basis and is primarily based on recent shrink results.

We identified the evaluation of the estimation of store shrink occurring in the period between physical inventory counts and fiscal year-end as a critical audit matter. Evaluating the Company’s estimation of shrink at the end of the fiscal year using interim inventory loss experience in U.S. retail stores involved auditor judgment.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the process of developing the estimate of store shrink. We evaluated the appropriateness of the Company using interim physical inventory counts to estimate inventory losses in U.S. retail stores at the end of the fiscal year by:

- Evaluating the method and certain assumptions used;
- Testing the application of the method and certain assumptions used;
- Performing a current year trend analysis; and
- Performing a sensitivity analysis over the shrink reserve estimate.

/s/ KPMG LLP

We have served as the Company's auditor since 1979.

Atlanta, Georgia
March 23, 2022

THE HOME DEPOT, INC.
CONSOLIDATED BALANCE SHEETS

in millions, except per share data	January 30, 2022	January 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 2,343	$ 7,895
Receivables, net	3,426	2,992
Merchandise inventories	22,068	16,627
Other current assets	1,218	963
Total current assets	29,055	28,477
Net property and equipment	25,199	24,705
Operating lease right-of-use assets	5,968	5,962
Goodwill	7,449	7,126
Other assets	4,205	4,311
Total assets	$ 71,876	$ 70,581
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term debt	$ 1,035	$ —
Accounts payable	13,462	11,606
Accrued salaries and related expenses	2,426	2,463
Sales taxes payable	848	774
Deferred revenue	3,596	2,823
Income taxes payable	158	193
Current installments of long-term debt	2,447	1,416
Current operating lease liabilities	830	828
Other accrued expenses	3,891	3,063
Total current liabilities	28,693	23,166
Long-term debt, excluding current installments	36,604	35,822
Long-term operating lease liabilities	5,353	5,356
Deferred income taxes	909	1,131
Other long-term liabilities	2,013	1,807
Total liabilities	73,572	67,282
Common stock, par value $0.05; authorized: 10,000 shares; issued: 1,792 shares at January 30, 2022 and 1,789 shares at January 31, 2021; outstanding: 1,035 shares at January 30, 2022 and 1,077 shares at January 31, 2021	90	89
Paid-in capital	12,132	11,540
Retained earnings	67,580	58,134
Accumulated other comprehensive loss	(704)	(671)
Treasury stock, at cost, 757 shares at January 30, 2022 and 712 shares at January 31, 2021	(80,794)	(65,793)
Total stockholders' (deficit) equity	(1,696)	3,299
Total liabilities and stockholders' equity	$ 71,876	$ 70,581

See accompanying notes to consolidated financial statements.

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THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF EARNINGS

in millions, except per share data	Fiscal 2021	Fiscal 2020	Fiscal 2019
Net sales	$ 151,157	$ 132,110	$ 110,225
Cost of sales	100,325	87,257	72,653
Gross profit	50,832	44,853	37,572
Operating expenses:			
Selling, general and administrative	25,406	24,447	19,740
Depreciation and amortization	2,386	2,128	1,989
Total operating expenses	27,792	26,575	21,729
Operating income	23,040	18,278	15,843
Interest and other (income) expense:			
Interest and investment income	(44)	(47)	(73)
Interest expense	1,347	1,347	1,201
Interest and other, net	1,303	1,300	1,128
Earnings before provision for income taxes	21,737	16,978	14,715
Provision for income taxes	5,304	4,112	3,473
Net earnings	$ 16,433	$ 12,866	$ 11,242
Basic weighted average common shares	1,054	1,074	1,093
Basic earnings per share	$ 15.59	$ 11.98	$ 10.29
Diluted weighted average common shares	1,058	1,078	1,097
Diluted earnings per share	$ 15.53	$ 11.94	$ 10.25

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Net earnings	$ 16,433	$ 12,866	$ 11,242
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustments	(77)	60	53
Cash flow hedges	9	8	8
Other	35	—	3
Total other comprehensive (loss) income, net of tax	(33)	68	64
Comprehensive income	$ 16,400	$ 12,934	$ 11,306

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Common Stock:			
Balance at beginning of year	$ 89	$ 89	$ 89
Shares issued under employee stock plans	1	—	—
Balance at end of year	90	89	89
Paid-in Capital:			
Balance at beginning of year	11,540	11,001	10,578
Shares issued under employee stock plans	194	229	172
Stock-based compensation expense	398	310	251
Balance at end of year	12,132	11,540	11,001
Retained Earnings:			
Balance at beginning of year	58,134	51,729	46,423
Cumulative effect of accounting changes	—	—	26
Net earnings	16,433	12,866	11,242
Cash dividends	(6,985)	(6,451)	(5,958)
Other	(2)	(10)	(4)
Balance at end of year	67,580	58,134	51,729
Accumulated Other Comprehensive Loss:			
Balance at beginning of year	(671)	(739)	(772)
Cumulative effect of accounting changes	—	—	(31)
Foreign currency translation adjustments, net of tax	(77)	60	53
Cash flow hedges, net of tax	9	8	8
Other, net of tax	35	—	3
Balance at end of year	(704)	(671)	(739)
Treasury Stock:			
Balance at beginning of year	(65,793)	(65,196)	(58,196)
Repurchases of common stock	(15,001)	(597)	(7,000)
Balance at end of year	(80,794)	(65,793)	(65,196)
Total stockholders' (deficit) equity	$ (1,696)	$ 3,299	$ (3,116)

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Cash Flows from Operating Activities:			
Net earnings	$ 16,433	$ 12,866	$ 11,242
Reconciliation of net earnings to net cash provided by operating activities:			
Depreciation and amortization	2,862	2,519	2,296
Stock-based compensation expense	399	310	251
Changes in receivables, net	(435)	(465)	(170)
Changes in merchandise inventories	(5,403)	(1,657)	(593)
Changes in other current assets	(330)	43	(135)
Changes in accounts payable and accrued expenses	2,401	5,118	32
Changes in deferred revenue	775	702	334
Changes in income taxes payable	(51)	(149)	44
Changes in deferred income taxes	(276)	(569)	202
Other operating activities	196	121	184
Net cash provided by operating activities	16,571	18,839	13,687
Cash Flows from Investing Activities:			
Capital expenditures	(2,566)	(2,463)	(2,678)
Payments for businesses acquired, net	(421)	(7,780)	—
Other investing activities	18	73	25
Net cash used in investing activities	(2,969)	(10,170)	(2,653)
Cash Flows from Financing Activities:			
Proceeds from (repayments of) short-term debt, net	1,035	(974)	(365)
Proceeds from long-term debt, net of discounts and premiums	2,979	7,933	3,420
Repayments of long-term debt	(1,532)	(2,872)	(1,070)
Repurchases of common stock	(14,809)	(791)	(6,965)
Proceeds from sales of common stock	337	326	280
Cash dividends	(6,985)	(6,451)	(5,958)
Other financing activities	(145)	(154)	(140)
Net cash used in financing activities	(19,120)	(2,983)	(10,798)
Change in cash and cash equivalents	(5,518)	5,686	236
Effect of exchange rate changes on cash and cash equivalents	(34)	76	119
Cash and cash equivalents at beginning of year	7,895	2,133	1,778
Cash and cash equivalents at end of year	$ 2,343	$ 7,895	$ 2,133
Supplemental Disclosures:			
Cash paid for income taxes	$ 5,504	$ 4,654	$ 3,220
Cash paid for interest, net of interest capitalized	1,269	1,241	1,112
Non-cash capital expenditures	421	274	136

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

The Home Depot, Inc., together with its subsidiaries (the "Company," "Home Depot," "we," "our" or "us"), is a home improvement retailer that sells a wide assortment of building materials, home improvement products, lawn and garden products, décor items, and facilities maintenance, repair and operations products, and provides a number of services, in stores and online. We operate in the U.S. (including the Commonwealth of Puerto Rico and the territories of the U.S. Virgin Islands and Guam), Canada, and Mexico.

Consolidation and Presentation

Our consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. Intercompany transactions are eliminated in consolidation. Our fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31st. All periods presented include 52 weeks.

Use of Estimates

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses in preparing these financial statements in conformity with GAAP. While we believe these estimates and assumptions are reasonable, actual results could differ from these estimates, including changes due to uncertainty in the current economic environment resulting from the COVID-19 pandemic.

Cash Equivalents

We consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Our cash equivalents are carried at fair market value and consist primarily of money market funds.

Receivables

The following table presents components of receivables, net:

in millions	January 30, 2022	January 31, 2021
Card receivables	$ 1,028	$ 992
Rebate receivables	1,170	987
Customer receivables	703	571
Other receivables	525	442
Receivables, net	$ 3,426	$ 2,992

Card receivables consist of payments due from financial institutions for the settlement of credit card and debit card transactions. Rebate receivables represent amounts due from vendors for volume and co-op advertising rebates. Customer receivables relate to credit extended directly to certain customers in the ordinary course of business. The valuation allowance related to these receivables was not material to our consolidated financial statements at the end of fiscal 2021 or fiscal 2020.

Merchandise Inventories

Inventory cost includes the amount we pay to acquire inventory, including freight and import costs, as well as operating costs associated with our sourcing and distribution network, and is net of certain vendor allowances. The majority of our merchandise inventories are stated at the lower of cost (first-in, first-out) or market, as determined by the retail inventory method, which is based on a number of factors such as markups, markdowns, and inventory losses (or shrink). As the inventory retail value is adjusted regularly to reflect market conditions, inventory valued using the retail method approximates the lower of cost or market. Certain subsidiaries, including retail operations in Canada and Mexico, and distribution centers, record merchandise inventories at the lower of cost or net realizable value, as determined by a cost method. These merchandise inventories represent approximately 43% of the total merchandise inventories balance. We evaluate the inventory valued using a cost method at the end of each quarter to ensure that it is carried at the lower of cost or net realizable value, and the adjustments recorded to merchandise inventories valued under a cost method were not material to our consolidated financial statements at the end of fiscal 2021 or fiscal 2020.

Physical inventory counts or cycle counts are taken on a regular basis in each store and distribution center to ensure that amounts reflected in merchandise inventories are properly stated. Shrink (or in the case of excess inventory, swell) is the difference between the recorded amount of inventory and the physical inventory count. We calculate shrink based on actual inventory losses identified as a result of physical inventory counts during each fiscal period and estimated inventory losses between physical inventory counts. The estimate for shrink occurring in the interim period between physical inventory counts is calculated on a store-specific basis and is primarily based on recent shrink results. Historically, the difference between estimated shrink and actual inventory losses has not been material to our annual financial results.

Due to changes in operating conditions during fiscal 2020 as a result of the COVID-19 pandemic, we used the results from a sample of stores that were able to conduct physical inventories as a basis for estimating shrink for those stores at which physical inventory counts were temporarily suspended during fiscal 2020. We believe the sample of stores that were selected for inventory counts in fiscal 2020 provided a reasonable basis for estimating shrink where a physical inventory count was not performed in fiscal 2020. During fiscal 2021, we performed all regularly scheduled physical inventory counts, including store locations where physical inventory counts were suspended during fiscal 2020, and the difference between estimated shrink and actual inventory losses was not material.

Property and Equipment

Buildings and related improvements, furniture, fixtures, and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Leasehold improvements and assets held under finance leases are amortized using the straight-line method over the original term of the lease or the useful life of the asset, whichever is shorter.

The following table presents the estimated useful lives of our property and equipment:

	Life
Buildings and improvements	5 – 45 years
Furniture, fixtures and equipment	2 – 20 years
Leasehold improvements	5 – 45 years

We capitalize certain costs, including interest, related to construction in progress and the acquisition and development of software. Costs associated with the acquisition and development of software are amortized using the straight-line method over the estimated useful life of the software, which is three to seven years. Certain development costs not meeting the criteria for capitalization are expensed as incurred.

We evaluate our long-lived assets each quarter for indicators of potential impairment. Indicators of impairment include current period losses combined with a history of losses, our decision to relocate or close a store or other location before the end of its previously estimated useful life, or when changes in other circumstances indicate the carrying amount of an asset may not be recoverable. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The assets of a store with indicators of impairment are evaluated for recoverability by comparing their undiscounted future cash flows with their carrying value. If the carrying value is greater than the undiscounted future cash flows, we then measure the asset's fair value to determine whether an impairment loss should be recognized. If the resulting fair value is less than the carrying value, an impairment loss is recognized for the difference between the carrying value and the estimated fair value. Impairment losses on property and equipment are recorded as a component of SG&A. Impairment charges for long-lived assets were not material to our consolidated financial statements in fiscal 2021, fiscal 2020, or fiscal 2019.

Leases

We enter into contractual arrangements for the utilization of certain non-owned assets which are evaluated as finance or operating leases upon commencement, and are accounted for accordingly. Specifically, a contract is or contains a lease when (1) the contract contains an explicitly or implicitly identified asset and (2) we obtain substantially all of the economic benefits from the use of that underlying asset and direct how and for what purpose the asset is used during the term of the contract in exchange for consideration. We assess whether an arrangement is or contains a lease at inception of the contract.

We lease certain retail locations, warehouse and distribution space, office space, equipment, and vehicles. A substantial majority of our leases have remaining lease terms of one to 20 years, typically with the option to extend the leases for five-year terms. Some of our leases may include the option to terminate in less than five years. The lease term used to calculate the right-of-use asset and lease liability at commencement includes the impacts of options to extend or terminate the lease when it is reasonably certain that we will exercise that option. When determining whether it is reasonably certain that we will exercise an option at commencement, we consider various existing economic factors, including market conditions, real estate strategies, the nature, length, and terms of the agreement, as well as the uncertainty of the condition of leased equipment at the end of the lease term. Based on these determinations, we generally conclude that the exercise of renewal options would not be reasonably certain in determining the lease term at commencement.

The discount rate used to calculate the present value of lease payments is the rate implicit in the lease, when readily determinable. As the rate implicit in the lease is rarely readily determinable, we use a secured incremental borrowing rate, which is updated on a quarterly basis, as the discount rate for the present value of lease payments.

Real estate taxes, insurance, maintenance, and operating expenses applicable to the leased property are generally our obligations under our lease agreements. In instances where these payments are fixed, they are included in the measurement of our lease liabilities, and when variable, are excluded and recognized in the period in which the obligation for those payments is incurred. Certain of our lease agreements also include rental payments based on an index or rate and others include rental payments based on a percentage of sales. For variable payments dependent upon an index or rate, we apply the active index or rate as of the lease commencement date. Variable lease payments not based on an index or rate are not included in the measurement of our lease liabilities as they cannot be reasonably estimated, and are recognized in the period in which the obligation for those payments is incurred.

Leases that have a term of twelve months or less upon commencement are considered short-term in nature. Short-term leases are not included on the consolidated balance sheets and are expensed on a straight-line basis over the lease term. We have also elected to not separate lease and non-lease components for certain classes of assets including real estate and certain equipment.

Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Business Combinations

The assets and liabilities of acquired businesses are recorded at their fair values at the date of acquisition. The excess of the purchase price over the fair values of the identifiable assets acquired and liabilities assumed is recorded as goodwill. During the measurement period, which is up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Goodwill

Goodwill represents the excess of purchase price over the fair value of net assets acquired. We do not amortize goodwill, but assess the recoverability of goodwill in the third quarter of each fiscal year, or more often if indicators warrant, by determining whether the fair value of each reporting unit supports its carrying value. Each fiscal year, we may assess qualitative factors to determine whether it is more likely than not that the fair value of each reporting unit is less than its carrying amount as a basis for determining whether it is necessary to complete quantitative impairment assessments, with a quantitative assessment completed periodically as facts and circumstances warrant. We completed our last quantitative assessment in fiscal 2019 and concluded that the fair value of our reporting units substantially exceeded their respective carrying values, including goodwill.

During the third quarter of fiscal 2021, we completed our annual assessment of the recoverability of goodwill for our U.S., Canada, and Mexico reporting units based on qualitative factors. We performed a qualitative assessment to determine if there were any indicators of impairment and concluded that while there have been events and circumstances in the macro-environment that have impacted us, we have not experienced any entity-specific indicators that would indicate that it is more likely than not that the fair value of any of our reporting units were less than their carrying amounts. There were no impairment charges related to goodwill for fiscal 2021, fiscal 2020, or fiscal 2019.

The following table presents the changes in the carrying amount of our goodwill:

in millions	Fiscal 2021	Fiscal 2020
Goodwill, balance at beginning of year	$ 7,126	$ 2,254
Acquisitions (1)	323	4,870
Other (2)	—	2
Goodwill, balance at end of year	$ 7,449	$ 7,126

(1) *Fiscal 2021 includes goodwill from a small acquisition completed during the second quarter. Fiscal 2020 includes goodwill related to the acquisition of HD Supply. See Note 12 for details regarding the HD Supply acquisition.*

(2) *Primarily reflects the net impact of foreign currency translation and immaterial acquisition-related measurement period adjustments.*

Other Intangible Assets

Intangible assets other than goodwill are included in other assets on the consolidated balance sheets. We amortize the cost of definite-lived intangible assets over their estimated useful lives, which range up to 20 years. Intangible assets with indefinite lives are tested in the third quarter of each fiscal year for impairment, or more often if indicators warrant. During the third quarter of fiscal 2021, we completed our annual assessment of the recoverability of our indefinite-lived intangible assets based on quantitative factors and concluded no impairment losses should be recognized. There were no impairment losses related to intangible assets for fiscal 2021, fiscal 2020, and fiscal 2019.

The following table presents the gross carrying amount and accumulated amortization relating to intangible assets:

	January 30, 2022		January 31, 2021	
in millions	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Definite-Lived Intangible Assets:				
Customer relationships	$ 3,034	$ (326)	$ 2,965	$ (157)
Trade names	151	(8)	151	(1)
Other	12	(9)	16	(11)
Indefinite-Lived Intangible Assets:				
Trade names	649		649	
Total Intangible Assets	$ 3,846	$ (343)	$ 3,781	$ (169)

Our intangible asset amortization expense was immaterial for fiscal 2021, fiscal 2020, and fiscal 2019.

The following table presents the estimated future amortization expense related to definite-lived intangible assets as of January 30, 2022:

in millions	Amortization Expense
Fiscal 2022	$ 180
Fiscal 2023	178
Fiscal 2024	178
Fiscal 2025	178
Fiscal 2026	178
Thereafter	1,962
Total	$ 2,854

Debt

We record any premiums or discounts associated with an issuance of long-term debt as a direct addition or deduction to the carrying value of the related senior notes. We also record debt issuance costs associated with an issuance of long-term debt as a direct deduction to the carrying value of the related senior notes. Premium, discount, and debt issuance costs are amortized over the term of the respective notes using the effective interest rate method.

Derivative Instruments and Hedging Activities

We use derivative instruments in the management of our interest rate exposure on long-term debt and our exposure to foreign currency fluctuations. We enter into derivative instruments for risk management purposes only; we do not enter into derivative instruments for trading or speculative purposes. All derivative instruments are recognized at their fair values in either assets or liabilities at the balance sheet date and are classified as either current or non-current based on each contract's respective maturity. While we enter into master netting arrangements, our policy is to present the fair value of derivative instruments gross in our consolidated balance sheets.

Changes in the fair values for derivative instruments designated as cash flow or net investment hedges are recognized in accumulated other comprehensive income (loss) until the hedged item is recognized in earnings, which for net investment hedges is upon sale or substantial liquidation of the underlying net investment. Changes in fair value of outstanding fair value hedges and the offsetting changes in fair values of the hedged item are recognized in earnings. We record realized gains and losses from derivative instruments in the same financial statement line item as the hedged item.

Derivative instruments that are not designated as hedges, if any, are recorded at fair value with unrealized gains or losses reported in earnings each period in the same financial statement line item as the hedged item. Cash flows from the settlement of derivative instruments appear in the consolidated statements of cash flows in the same categories as the cash flows of the hedged item.

Insurance

We are self-insured for certain losses related to general liability (including product liability), workers' compensation, employee group medical, and automobile claims. We recognize the expected ultimate cost for claims incurred (undiscounted) at the balance sheet date as a liability. The expected ultimate cost for claims incurred is estimated based upon analysis of historical data and actuarial estimates.

Our self-insurance liabilities, which are included in accrued salaries and related expenses, other accrued expenses and other long-term liabilities in the consolidated balance sheets, were $1.3 billion at January 30, 2022 and January 31, 2021.

We also maintain network security and privacy liability insurance coverage to limit our exposure to losses such as those that may be caused by a significant compromise or breach of our data security. Insurance-related expenses are included in SG&A.

Treasury Stock

Treasury stock is reflected as a reduction of stockholders' equity at cost. We use the weighted-average purchase cost to determine the cost of treasury stock that is reissued, if any.

Net Sales

We recognize revenue, net of expected returns and sales tax, at the time the customer takes possession of merchandise or when a service is performed. Our liability for sales returns is estimated based on historical return levels and our expectation of future returns. We also recognize a return asset, and corresponding adjustment to cost of sales, for our right to recover the goods returned by the customer, measured at the former carrying amount of the goods, less any expected recovery cost. At each financial reporting date, we assess our estimates of expected returns, refund liabilities, and return assets. Adjustments related to changes in return estimates were immaterial in fiscal 2021, fiscal 2020, and fiscal 2019.

Net sales include services revenue generated through a variety of installation, home maintenance, and professional service programs. In these programs, the customer selects and purchases material for a project, and we provide or arrange for professional installation. These programs are offered through our stores, online, and in-home sales programs. Under certain programs, when we provide or arrange for the installation of a project and the subcontractor provides material as part of the installation, both the material and labor are included in services revenue. We recognize this revenue when the service for the customer is complete, which is not materially different from recognizing the revenue over the service period as the substantial majority of our services are completed within one week.

For products and services sold in stores or online, payment is typically due at the point of sale. When we receive payment from customers before the customer has taken possession of the merchandise or the service has been performed, the amount received is recorded as deferred revenue until the sale or service is complete. Such performance obligations are part of contracts with expected original durations of typically three months or less. As of

January 30, 2022 and January 31, 2021, deferred revenue for products and services was $2.6 billion and $1.9 billion, respectively.

We further record deferred revenue for the sale of gift cards and recognize the associated revenue upon the redemption of those gift cards, which generally occurs within six months of gift card issuance. As of January 30, 2022 and January 31, 2021, our performance obligations for unredeemed gift cards were $1.0 billion and $839 million, respectively. Gift card breakage income, which is our estimate of the portion of our gift card balance not expected to be redeemed, is recognized in net sales and was immaterial in fiscal 2021, fiscal 2020, and fiscal 2019.

We also have agreements with third-party service providers who directly extend credit to customers, manage our PLCC program, and own the related receivables. We have evaluated the third-party entities holding the receivables under the program and concluded that they should not be consolidated. The agreement with the primary third-party service provider for our PLCC program expires in 2028, with us having the option, but no obligation, to purchase the existing receivables at the end of the agreement. Deferred interest charges incurred for our deferred financing programs offered to these customers, interchange fees charged to us for their use of the cards, and any profit sharing with the third-party service providers are included in net sales.

Cost of Sales

Cost of sales includes the actual cost of merchandise sold and services performed; the cost of transportation of merchandise from vendors to our distribution network, stores, or customers; shipping and handling costs from our stores or distribution network to customers; and the operating cost and depreciation of our sourcing and distribution network. Vendor allowances that are not reimbursement of specific, incremental, and identifiable costs are also included within cost of sales.

Vendor Allowances

Vendor allowances primarily consist of volume rebates that are earned as a result of attaining certain purchase levels and co-op advertising allowances for the promotion of vendors' products that are typically based on guaranteed minimum amounts with additional amounts being earned for attaining certain purchase levels. These vendor allowances are accrued as earned, with those allowances received as a result of attaining certain purchase levels accrued over the incentive period based on estimates of purchases. Volume rebates and certain co-op advertising allowances reduce the carrying cost of inventory and are recognized in cost of sales when the related inventory is sold.

Selling, General and Administrative

Selling, general and administrative expenses include compensation and benefits for retail and store support center associates, occupancy and operating costs of retail locations and store support centers, insurance-related expenses, advertising costs, credit and debit card processing fees, and other administrative costs.

Advertising Expense

Advertising costs, including digital, television, radio and print, are expensed when the advertisement first appears. Certain co-op advertising allowances that are reimbursements of specific, incremental, and identifiable costs incurred to promote vendors' products are recorded as an offset against advertising expense. The following table presents net advertising expense included in SG&A:

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Net advertising expense	$ 1,044	$ 909	$ 904

Stock-Based Compensation

We are currently authorized to issue incentive and nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, and deferred shares to certain of our associates and non-employee directors under certain stock incentive plans. We measure and recognize compensation expense for all stock-based payment awards made to associates and non-employee directors based on estimated fair values. The value of the portion of the award that is ultimately expected to vest is recognized as stock-based compensation expense, on a straight-line basis, over the requisite service period or as restrictions lapse. We include estimated forfeitures expected to occur when calculating stock-based compensation expense. Additional information on our stock-based payment awards is included in Note 8.

Income Taxes

Income taxes are accounted for under the asset and liability method. We provide for federal, state, and foreign income taxes currently payable, as well as for those deferred due to timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates is recognized as income or expense in the period that includes the enactment date. We routinely evaluate the likelihood of realizing the benefit of our deferred tax assets and may record a valuation allowance if, based on all available evidence, we determine that it is more likely than not that some portion of the tax benefit will not be realized.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

We file a consolidated U.S. federal income tax return which includes certain eligible subsidiaries. Non-U.S. subsidiaries and certain U.S. subsidiaries, which are consolidated for financial reporting purposes, are not eligible to be included in our consolidated U.S. federal income tax return. Separate provisions for income taxes have been determined for these entities. For unremitted earnings of our non-U.S. subsidiaries, we are required to make an assertion regarding reinvestment or repatriation for tax purposes. For any earnings that we do not make a permanent reinvestment assertion, we recognize a provision for deferred income taxes. For earnings where we have made a permanent reinvestment assertion, no provision is recognized. See Note 5 for further discussion.

We recognize interest and penalties related to income tax matters in interest expense and SG&A, respectively, on our consolidated statements of earnings. Accrued interest and penalties related to income tax matters are recognized in other accrued expenses and other long-term liabilities on our consolidated balance sheets.

We are subject to global intangible low-taxed income ("GILTI") tax, an incremental tax on foreign income. We have made an accounting election to record this tax in the period the tax arises.

Comprehensive Income

Comprehensive income includes net earnings adjusted for certain gains and losses that are excluded from net earnings and recognized within accumulated other comprehensive loss as a component of equity, which consist primarily of foreign currency translation adjustments. Accumulated other comprehensive loss also includes net losses on cash flow hedges that were immaterial as of January 30, 2022 and January 31, 2021. Reclassifications from accumulated other comprehensive loss into earnings were immaterial in fiscal 2021, fiscal 2020, and fiscal 2019.

Foreign Currency Translation

Assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange on the last day of the reporting period. Revenues and expenses are translated using average exchange rates for the period and equity transactions are translated using the actual rate on the day of the transaction. Cumulative foreign currency translation adjustments recorded in accumulated other comprehensive loss as of January 30, 2022 and January 31, 2021 were losses of $575 million and $498 million, respectively.

Recently Adopted Accounting Pronouncements

ASU No. 2019-12. In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," as part of its overall simplification initiative to reduce costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. Amendments include removal of certain exceptions to the general principles of Topic 740, "Income Taxes," and simplification in several other areas. On

February 1, 2021, we adopted ASU No. 2019-12 with no material impact to our consolidated financial condition, results of operations or cash flows.

Recently Issued Accounting Pronouncements

ASU 2021-10. In November 2021, the FASB issued ASU No. 2021-10, “Government Assistance (Topic 832),” to improve the transparency of government assistance received by business entities that are accounted for by applying either the International Accounting Standards 20 grant model or Accounting Standards Codification

958-605 contribution model by analogy. Topic 832 requires disclosure of the nature of the transactions and the related accounting policy used, the line items on the balance sheet and income statement that are affected and the amounts applicable to each financial statement line item, and significant terms of the transactions. This standard is effective for fiscal years beginning after December 15, 2021 and should be applied either prospectively or retrospectively. Early adoption is permitted. We are currently evaluating the impact of ASU 2021-10 on our consolidated financial statements and related disclosures.

ASU 2020-04. In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting," which provides practical expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The expedients and exceptions provided by the amendments in this update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued as a result of reference rate reform. These amendments are not applicable to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. ASU No. 2020-04 is effective as of March 12, 2020 through December 31, 2022 and may be applied to contract modifications and hedging relationships from the beginning of an interim period that includes or is subsequent to March 12, 2020. While the discontinuance of LIBOR will impact our interest rate swap agreements and certain of our credit arrangements, we do not anticipate the transition to a new reference rate and adoption of this standard will have a material impact on our consolidated financial condition, results of operations, or cash flows.

Recent accounting pronouncements adopted or pending adoption not discussed above are either not applicable or are not expected to have a material impact on our consolidated financial condition, results of operations, or cash flows.

2. NET SALES AND SEGMENT REPORTING

We currently conduct our retail operations in the U.S., Canada, and Mexico, each of which represents one of our three operating segments. Our operating segments reflect the way in which internally-reported financial information is used to make decisions and allocate resources. For disclosure purposes, we aggregate these three operating segments into one reportable segment due to their similar operating and financial characteristics.

The following table presents net property and equipment, classified by geography:

in millions	January 30, 2022	January 31, 2021	February 2, 2020
Net property and equipment – in the U.S.	$ 22,696	$ 22,205	$ 20,302
Net property and equipment – outside the U.S.	2,503	2,500	2,468
Net property and equipment	$ 25,199	$ 24,705	$ 22,770

No sales to an individual customer accounted for more than 10% of revenue during any of the last three fiscal years.

The following table presents net sales, classified by geography:

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Net sales – in the U.S.	$ 138,920	$ 122,158	$ 101,333
Net sales – outside the U.S.	12,237	9,952	8,892
Net sales	$ 151,157	$ 132,110	$ 110,225

The following table presents net sales by products and services:

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Net sales – products	$ 145,745	$ 127,671	$ 105,194
Net sales – services	5,412	4,439	5,031
Net sales	$ 151,157	$ 132,110	$ 110,225

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The following table presents major product lines and the related merchandising departments (and related services):

Major Product Line	Merchandising Departments
Building Materials	Building Materials, Electrical/Lighting, Lumber, Millwork, and Plumbing
Décor	Appliances, Décor/Storage, Flooring, Kitchen and Bath, and Paint
Hardlines	Hardware, Indoor Garden, Outdoor Garden, and Tools

The following table presents net sales by major product lines (and related services):

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Building Materials	$ 54,990	$ 46,521	$ 39,337
Décor	50,437	43,415	37,386
Hardlines	45,730	42,174	33,502
Net sales	$ 151,157	$ 132,110	$ 110,225

Note: Net sales for certain merchandising departments were reclassified in fiscal 2021. As a result, prior year amounts have been reclassified to conform with the current year presentation.

The following table presents net sales by merchandising department (and related services):

	Fiscal 2021		Fiscal 2020		Fiscal 2019	
dollars in millions	Net Sales	% of Net Sales	Net Sales	% of Net Sales	Net Sales	% of Net Sales
Appliances	$ 14,232	9.4 %	$ 11,865	9.0 %	$ 9,850	8.9 %
Building Materials	9,823	6.5	8,656	6.6	7,712	7.0
Décor/Storage	6,095	4.0	4,959	3.8	3,845	3.5
Electrical/Lighting	13,473	8.9	11,178	8.5	9,843	8.9
Flooring	9,225	6.1	8,156	6.2	7,443	6.8
Hardware	7,873	5.2	7,312	5.5	6,083	5.5
Indoor Garden	15,546	10.3	14,649	11.1	11,261	10.2
Kitchen and Bath	10,432	6.9	8,383	6.3	7,633	6.9
Lumber	13,344	8.8	11,309	8.6	7,894	7.2
Millwork	7,412	4.9	6,460	4.9	5,757	5.2
Outdoor Garden	10,317	6.8	9,602	7.3	7,595	6.9
Paint	10,453	6.9	10,052	7.6	8,615	7.8
Plumbing	10,938	7.2	8,918	6.8	8,131	7.4
Tools	11,994	7.9	10,611	8.0	8,563	7.8
Total	$ 151,157	100.0 %	$ 132,110	100.0 %	$ 110,225	100.0 %

Note: Certain percentages may not sum to totals due to rounding. Net sales for certain merchandising departments were reclassified in fiscal 2021. As a result, prior year net sales have been reclassified to conform with the current year presentation. Prior year percent of net sales data also reflects the new classifications.

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3. PROPERTY AND LEASES

Net Property and Equipment

The following table presents components of net property and equipment:

in millions	January 30, 2022	January 31, 2021
Land	$ 8,617	$ 8,543
Buildings and improvements	19,173	18,838
Furniture, fixtures, and equipment	16,441	15,119
Leasehold improvements	2,016	1,925
Construction in progress	1,139	1,068
Finance leases	3,943	3,308
Property and equipment, at cost	51,329	48,801
Less accumulated depreciation and finance lease amortization	26,130	24,096
Net property and equipment	$ 25,199	$ 24,705

The following table presents depreciation and finance lease amortization expense, including depreciation and finance lease amortization expense included in cost of sales:

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Depreciation and finance lease amortization expense	$ 2,650	$ 2,425	$ 2,223

Leases

The following table presents the consolidated balance sheet location of assets and liabilities related to operating and finance leases:

in millions	Consolidated Balance Sheet Caption	January 30, 2022	January 31, 2021
Assets:			
Operating lease assets	Operating lease right-of-use assets	$ 5,968	$ 5,962
Finance lease assets [(1)]	Net property and equipment	2,896	2,493
Total lease assets		$ 8,864	$ 8,455
Liabilities:			
Current:			
Operating lease liabilities	Current operating lease liabilities	$ 830	$ 828
Finance lease liabilities	Current installments of long-term debt	198	66
Long-term:			
Operating lease liabilities	Long-term operating lease liabilities	5,353	5,356
Finance lease liabilities	Long-term debt, excluding current installments	3,038	2,700
Total lease liabilities		$ 9,419	$ 8,950

(1) *Finance lease assets are recorded net of accumulated amortization of $1.0 billion as of January 30, 2022 and $815 million as of January 31, 2021.*

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The following table presents components of lease cost, excluding short-term lease cost and sublease income which are immaterial:

in millions	Consolidated Statement of Earnings Caption [(1)]	Fiscal 2021	Fiscal 2020	Fiscal 2019
Operating lease cost	Selling, general and administrative	$ 1,084	$ 782	$ 827
Finance lease cost:				
Amortization of leased assets	Depreciation and amortization	250	167	86
Interest on lease liabilities	Interest expense	127	112	92
Variable lease cost	Selling, general and administrative	425	277	241
Net lease cost		$ 1,886	$ 1,338	$ 1,246

(1) Costs associated with our sourcing and distribution network are recorded in cost of sales, with the exception of interest on finance lease liabilities.

The following table presents weighted average remaining lease terms and discount rates:

	January 30, 2022	January 31, 2021
Weighted Average Remaining Lease Term (Years):		
Operating leases	9	10
Finance leases	15	15
Weighted Average Discount Rate:		
Operating leases	2.7 %	2.9 %
Finance leases	4.7 %	5.6 %

The following table presents approximate future minimum lease payments under operating and finance leases at January 30, 2022:

in millions	Operating Leases	Finance Leases
Fiscal 2022	$ 1,005	$ 328
Fiscal 2023	1,023	333
Fiscal 2024	902	326
Fiscal 2025	755	367
Fiscal 2026	646	259
Thereafter	2,764	2,585
Total lease payments	7,095	4,198
Less: imputed interest	912	962
Present value of lease liabilities	$ 6,183	$ 3,236

Note: We have excluded approximately $1.3 billion of leases (undiscounted basis) that have not yet commenced. These leases will commence primarily between fiscal 2022 and 2023 with lease terms of up to 20 years.

The following table presents supplemental cash flow information related to leases:

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows – operating leases	$ 1,090	$ 1,022	$ 1,003
Operating cash flows – finance leases	127	112	92
Financing cash flows – finance leases	182	122	70
Supplemental non-cash information:			
Lease assets obtained in exchange for new operating lease liabilities	964	969	748
Lease assets obtained in exchange for new finance lease liabilities	672	1,730	186

4. DEBT AND DERIVATIVE INSTRUMENTS

Short-Term Debt

At January 30, 2022, we had commercial paper programs that allowed for borrowings up to $3.0 billion. All of our short-term borrowings in fiscal 2021 and fiscal 2020 were under these commercial paper programs. In connection with these programs, we had back-up credit facilities with a consortium of banks for borrowings up to $3.0 billion at January 30, 2022, which consisted of a five-year $2.0 billion credit facility scheduled to expire in December 2023 and a 364-day $1.0 billion credit facility scheduled to expire in December 2022. In December 2021, we completed the renewal of our 364-day $1.0 billion credit facility, extending the maturity from December 2021 to December 2022. At January 30, 2022, we had $1.0 billion of outstanding borrowings under our commercial paper programs. At January 31, 2021, there were no outstanding borrowings under our commercial paper programs.

The following table presents certain information on our commercial paper programs:

dollars in millions	January 30, 2022	January 31, 2021
Weighted average interest rate	0.1 %	— %
Maximum amount outstanding during the period	$ 1,368	$ 899
Average daily short-term borrowings	$ 45	$ 11

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Long-Term Debt

The following table presents details of the components of our long-term debt:

in millions	Interest Payable	Principal Amount	Carrying Amount (1) January 30, 2022	Carrying Amount (1) January 31, 2021
2.00% Senior notes due April 2021	Semi-annually	—	—	1,350
Floating rate senior notes due March 2022	Quarterly	300	300	300
3.25% Senior notes due March 2022	Semi-annually	700	700	699
2.625% Senior notes due June 2022	Semi-annually	1,250	1,249	1,248
2.70% Senior notes due April 2023	Semi-annually	1,000	999	998
3.75% Senior notes due February 2024	Semi-annually	1,100	1,098	1,096
3.35% Senior notes due September 2025	Semi-annually	1,000	998	997
3.00% Senior notes due April 2026	Semi-annually	1,300	1,293	1,291
2.125% Senior notes due September 2026	Semi-annually	1,000	992	990
2.50% Senior notes due April 2027	Semi-annually	750	744	743
2.80% Senior notes due September 2027	Semi-annually	1,000	1,001	1,017
0.90% Senior notes due March 2028	Semi-annually	500	495	494
1.50% Senior notes due September 2028	Semi-annually	1,000	992	—
3.90% Senior notes due December 2028	Semi-annually	1,000	1,035	1,075
2.95% Senior notes due June 2029	Semi-annually	1,750	1,768	1,828
2.70% Senior notes due April 2030	Semi-annually	1,500	1,422	1,464
1.375% Senior notes due March 2031	Semi-annually	1,250	1,210	1,229
1.875% Senior notes due September 2031	Semi-annually	1,000	981	—
5.875% Senior notes due December 2036	Semi-annually	3,000	2,916	2,935
3.30% Senior notes due April 2040	Semi-annually	1,250	1,164	1,207
5.40% Senior notes due September 2040	Semi-annually	500	496	496
5.95% Senior notes due April 2041	Semi-annually	1,000	990	990
4.20% Senior notes due April 2043	Semi-annually	1,000	977	989
4.875% Senior notes due February 2044	Semi-annually	1,000	981	980
4.40% Senior notes due March 2045	Semi-annually	1,000	979	979
4.25% Senior notes due April 2046	Semi-annually	1,600	1,586	1,585
3.90% Senior notes due June 2047	Semi-annually	1,150	1,144	1,144
4.50% Senior notes due December 2048	Semi-annually	1,500	1,464	1,463
3.125% Senior notes due December 2049	Semi-annually	1,250	1,214	1,222
3.35% Senior notes due April 2050	Semi-annually	1,500	1,471	1,470
2.375% Senior notes due March 2051	Semi-annually	1,250	1,201	1,220
2.75% Senior notes due September 2051	Semi-annually	1,000	982	—
3.50% Senior notes due September 2056	Semi-annually	1,000	973	973
Total senior notes		$ 36,400	$ 35,815	$ 34,472
Finance lease obligations; payable in varying installments through January 31, 2055			3,236	2,766
Total long-term debt			39,051	37,238
Less current installments of long-term debt			2,447	1,416
Long-term debt, excluding current installments			$ 36,604	$ 35,822

(1) Includes unamortized discounts, premiums, debt issuance costs, and the effects of fair value hedges.

September 2021 Issuance

In September 2021, we issued three tranches of senior notes.

- The first tranche consisted of $1.0 billion of 1.50% senior notes due September 15, 2028 (the “2028 notes”) at a discount of $4 million. Interest on the 2028 notes is due semi-annually on March 15 and September 15 of each year, beginning March 15, 2022.
- The second tranche consisted of $1.0 billion of 1.875% senior notes due September 15, 2031 (the “2031 notes”) at a discount of $6 million. Interest on the 2031 notes is due semi-annually on March 15 and September 15 of each year, beginning March 15, 2022.
- The third tranche consisted of $1.0 billion of 2.75% senior notes due September 15, 2051 (the “2051 notes”) at a discount of $11 million (together with the 2028 notes and the 2031 notes, the “September 2021 issuance”). Interest on the 2051 notes is due semi-annually on March 15 and September 15 of each year, beginning March 15, 2022.
- Issuance costs for the September 2021 issuance totaled $17 million.

Redemption

All of our senior notes, other than our outstanding floating rate notes, may be redeemed by us at any time, in whole or in part, at the redemption price plus accrued interest up to the redemption date. With respect to the 3.25% 2022 notes and the 5.875% 2036 notes, 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 on the notes to be redeemed that would be due after the related redemption date. With respect to all other notes, 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 us to redeem those notes at 101% of the aggregate principal amount of the notes plus accrued interest up to the redemption date.

In March 2021, we repaid our $1.35 billion 2.00% senior notes that had a maturity date of April 2021.

The indentures governing the notes do not generally limit our ability to incur additional indebtedness or require us 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 our liquidity or capital resources.

Maturities of Long-Term Debt

The following table presents our long-term debt maturities, excluding finance leases, as of January 30, 2022:

in millions	Principal
Fiscal 2022	$ 2,250
Fiscal 2023	1,000
Fiscal 2024	1,100
Fiscal 2025	1,000
Fiscal 2026	2,300
Thereafter	28,750
Total	$ 36,400

Derivative Instruments and Hedging Activities

We use derivative and nonderivative instruments as part of our normal business operations in the management of our exposure to fluctuations in foreign currency exchange rates and interest rates on certain debt. Our objective in managing these exposures is to decrease the volatility of cash flows affected by changes in the underlying rates and minimize the risk of changes in the fair value of our senior notes.

Fair Value Hedges

We had outstanding interest rate swap agreements with combined notional amounts of $5.4 billion at January 30, 2022 and $4.4 billion at January 31, 2021. These agreements were accounted for as fair value hedges that swap fixed for variable rate interest to hedge changes in the fair values of certain senior notes. At January 30, 2022, the fair values of these agreements totaled $191 million, with $58 million recognized in other assets and $249 million recognized in other long-term liabilities on the consolidated balance sheet. At January 31, 2021, the fair values of these agreements totaled $101 million, with $172 million recognized in other assets and $71 million recognized in other long-term liabilities on the consolidated balance sheet. All of our interest rate swap agreements designated as fair value hedges meet the shortcut method requirements under GAAP. Accordingly, the changes in the fair values of these agreements offset the changes in the fair value of the hedged long-term debt.

Cash Flow Hedges

At January 30, 2022 and January 31, 2021, we had outstanding foreign currency forward contracts accounted for as cash flow hedges, which hedge the variability of forecasted cash flows associated with certain payments made in our foreign operations. At January 30, 2022 and January 31, 2021, the notional amounts and the fair values of these contracts were not material.

During fiscal 2019, we settled our outstanding cross currency swap agreements accounted for as cash flow hedges, which hedged foreign currency fluctuations on certain intercompany debt, resulting in a gain of $118 million.

We also settled forward-starting interest rate swap agreements in prior years, which were used to hedge the variability in future interest payments attributable to changing interest rates on forecasted debt issuances. Unamortized losses on these forward-starting swaps, which were designated as cash flow hedges, are being amortized to interest expense over the life of the respective notes. Unamortized losses recognized on these swaps remaining in accumulated other comprehensive loss were immaterial as of January 30, 2022 and January 31, 2021, as were the losses recognized within interest expense for fiscal 2021, fiscal 2020, and fiscal 2019.

We expect an immaterial amount recorded in accumulated other comprehensive loss as of January 30, 2022 to be reclassified into earnings within the next 12 months.

Net Investment Hedges

We had outstanding foreign currency forward contracts as well as certain nonderivative instruments accounted for as net investment hedges, which were immaterial at January 31, 2021. These agreements hedged against foreign currency exposure on our net investment in certain subsidiaries. During fiscal 2021, we settled all outstanding net investment hedges and the related foreign currency translation adjustment amounts recorded in accumulated other comprehensive loss upon settlement were immaterial. There were no arrangements accounted for as net investment hedges outstanding as of January 30, 2022.

Collateral

We generally enter into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with the same counterparty. To further limit our credit risk, we enter into collateral security arrangements that provide for collateral to be received or posted when the net fair value of certain derivative instruments exceeds or falls below contractually established thresholds. The cash collateral both held and posted by the Company related to derivative instruments under our collateral security arrangements was immaterial as of January 30, 2022 and January 31, 2021.

5. INCOME TAXES

Provision for Income Taxes

The following table presents our earnings before the provision for income taxes:

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
United States	$ 20,320	$ 16,013	$ 13,770
Foreign	1,417	965	945
Total	$ 21,737	$ 16,978	$ 14,715

The following table presents our provision for income taxes:

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Current:			
Federal	$ 4,066	$ 3,462	$ 2,370
State	981	928	572
Foreign	511	329	340
Total current	5,558	4,719	3,282
Deferred:			
Federal	(155)	(404)	259
State	(11)	(209)	(72)
Foreign	(88)	6	4
Total deferred	(254)	(607)	191
Provision for income taxes	$ 5,304	$ 4,112	$ 3,473

The following table presents our combined federal, state, and foreign effective tax rates:

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Combined federal, state, and foreign effective tax rates	24.4 %	24.2 %	23.6 %

The following table presents the reconciliation of our provision for income taxes at the federal statutory rate of 21% to the actual tax expense:

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Income taxes at federal statutory rate	$ 4,565	$ 3,565	$ 3,090
State income taxes, net of federal income tax benefit	766	568	395
Other, net	(27)	(21)	(12)
Total	$ 5,304	$ 4,112	$ 3,473

Deferred Taxes

The following table presents the tax effects of temporary differences that give rise to significant portions of our deferred tax assets and deferred tax liabilities:

in millions	January 30, 2022	January 31, 2021
Assets:		
Deferred compensation	$ 471	$ 472
Accrued self-insurance liabilities	272	291
State income taxes	138	117
Merchandise inventories	—	41
Non-deductible reserves	250	199
Net operating losses	150	144
Lease liabilities	1,528	1,605
Deferred revenue	121	51
Other	67	104
Total deferred tax assets	2,997	3,024
Valuation allowance	(10)	(8)
Total deferred tax assets, net of valuation allowance	2,987	3,016
Liabilities:		
Merchandise inventories	(14)	—
Property and equipment	(902)	(1,061)
Goodwill and other intangibles	(985)	(1,030)
Lease right-of-use assets	(1,473)	(1,555)
Tax on unremitted earnings	(74)	(119)
Other	(104)	(77)
Total deferred tax liabilities	(3,552)	(3,842)
Net deferred tax liabilities	$ (565)	$ (826)

The following table presents our noncurrent deferred tax assets and noncurrent deferred tax liabilities, netted by tax jurisdiction, as presented on the consolidated balance sheets:

in millions	January 30, 2022	January 31, 2021
Other assets	$ 344	$ 305
Deferred income taxes	(909)	(1,131)
Net deferred tax liabilities	$ (565)	$ (826)

As of January 30, 2022, we recorded deferred tax assets of $150 million for net operating losses, primarily related to state jurisdictions. These losses expire at various dates beginning in 2022. We have concluded that it is more likely than not that tax benefits related to substantially all net operating losses will be realized based upon the expectation that we will generate the necessary taxable income in future periods.

Reinvestment of Unremitted Earnings

Substantially all of our current year foreign cash earnings in excess of working capital and cash needed for strategic investments are not intended to be indefinitely reinvested offshore. Therefore, the tax effects of repatriation (including applicable state and local taxes and foreign withholding taxes) of such cash earnings have been provided for in the accompanying consolidated statements of earnings. We have the intent and ability to reinvest substantially all of the $3.4 billion of non-cash unremitted earnings of our non-

U.S. subsidiaries indefinitely. Accordingly, no provision for state and local taxes or foreign withholding taxes was recorded on these unremitted earnings in the accompanying consolidated statements of earnings. It is impracticable for us to determine the amount of unrecognized deferred tax liabilities on these indefinitely reinvested earnings due to the complexities associated with the hypothetical calculation.

Tax Return Examination Status

Our income tax returns are routinely examined by U.S. federal, state and local, and foreign tax authorities. As of January 30, 2022, the Company is no longer subject to U.S. federal examinations by tax authorities for years before fiscal 2010. Our U.S. federal tax returns for fiscal years 2010 through 2018, with the exception of 2015, are currently under examination by the IRS. With respect to the fiscal years 2010 to 2014, the IRS has issued a proposed adjustment relating to transfer pricing between our entities in the U.S. and China. We are defending our position using all available remedies. There are also ongoing U.S. state and local audits and other foreign audits covering fiscal years 2012 through 2019. We do not expect the results from any ongoing income tax audit to have a material impact on our consolidated financial condition, results of operations, or cash flows.

Over the next twelve months, it is reasonably possible that the resolution of federal and state tax examinations, as well as the expiration of statutes of limitations, could reduce our unrecognized tax benefits by an immaterial amount. We do not anticipate the resolution of these matters will result in a material change to our consolidated financial condition or results of operations.

Unrecognized Tax Benefits

The following table presents reconciliations of the beginning and ending amount of our gross unrecognized tax benefits:

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Unrecognized tax benefits balance at beginning of fiscal year	$ 540	$ 473	$ 494
Additions based on tax positions related to the current year	80	75	96
Additions for tax positions of prior years	24	72	82
Reductions for tax positions of prior years	(40)	(53)	(147)
Reductions due to settlements	(29)	(22)	(13)
Reductions due to lapse of statute of limitations	(5)	(5)	(39)
Unrecognized tax benefits balance at end of fiscal year	$ 570	$ 540	$ 473

Unrecognized tax benefits that if recognized would affect our annual effective income tax rate on net earnings were $479 million, $458 million, and $407 million at January 30, 2022, January 31, 2021, and February 2, 2020, respectively.

Interest and Penalties

Net adjustments to accruals for interest and penalties associated with uncertain tax positions were immaterial in fiscal 2021, fiscal 2020, and fiscal 2019. Our total accrued interest and penalties associated with uncertain tax positions were immaterial as of January 30, 2022 and January 31, 2021.

6. STOCKHOLDERS' EQUITY

Stock Rollforward

The following table presents a reconciliation of the number of shares of our common stock and cash dividends per share:

shares in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Common stock:			
Balance at beginning of year	1,789	1,786	1,782
Shares issued under employee stock plans	3	3	4
Balance at end of year	1,792	1,789	1,786
Treasury stock:			
Balance at beginning of year	(712)	(709)	(677)
Repurchases of common stock	(45)	(3)	(32)
Balance at end of year	(757)	(712)	(709)
Shares outstanding at end of year	1,035	1,077	1,077
Cash dividends per share	$ 6.60	$ 6.00	$ 5.44

Share Repurchases

In May 2021, our Board of Directors approved a $20.0 billion share repurchase authorization. This new authorization replaced the previous authorization of $15.0 billion, which was approved February 2019, and does not have a prescribed expiration date. As of January 30, 2022, approximately $9.6 billion of the $20.0 billion share repurchase authorization remained available.

In March 2020, we suspended our share repurchases to enhance our liquidity position during the COVID-19 pandemic. We resumed share repurchases in the first quarter of fiscal 2021.

The following table presents information about our repurchases of common stock, all of which were completed through open market purchases, with the exception of the shares repurchased during fiscal 2019 through ASR agreements noted below:

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Total number of shares repurchased	45	3	32
Total cost of shares repurchased	$ 15,001	$ 597	$ 7,000

These amounts may differ from the repurchases of common stock amounts in the consolidated statements of cash flows due to unsettled share repurchases at the end of a period.

Accelerated Share Repurchase Agreements

We enter into ASR agreements from time to time with third-party financial institutions to repurchase shares of our common stock. Under an ASR agreement, we pay a specified amount to the financial institution and receive an initial delivery of shares. This initial delivery of shares represents the minimum number of shares that we 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 our common stock over the term of the 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 following table presents the terms of each ASR agreement entered into during the last three fiscal years, structured as outlined above (in millions):

Agreement Date	Settlement Date	Agreement Amount	Initial Shares Delivered	Additional Shares Delivered	Total Shares Delivered
Q3 2019	Q4 2019	820	3.2	0.4	3.6

7. FAIR VALUE MEASUREMENTS

The fair value of an asset is considered to be the price at which the asset could be sold in an orderly transaction between unrelated knowledgeable and willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, rather than the amount that would be paid to settle the liability with the creditor. Assets and liabilities recorded at fair value are measured using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the assets and liabilities that are measured at fair value on a recurring basis:

	Fair Value at January 30, 2022 Using			Fair Value at January 31, 2021 Using		
in millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative agreements – assets	$ —	$ 58	$ —	$ —	$ 172	$ —
Derivative agreements – liabilities	—	(249)	—	—	(71)	—
Total	$ —	$ (191)	$ —	$ —	$ 101	$ —

The fair values of our derivative instruments are determined using an income approach and Level 2 inputs, which include the respective interest rate or foreign currency forward curves and discount rates.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Long-lived assets, goodwill, and other intangible assets are subject to nonrecurring fair value measurement for the assessment of impairment. We did not have any material assets or liabilities that were measured at fair value on a nonrecurring basis during fiscal 2021, fiscal 2020, or fiscal 2019.

Other Fair Value Disclosures

The carrying amounts of cash and cash equivalents, receivables, short-term debt, and accounts payable approximate fair value due to their short-term nature.

The following table presents the aggregate fair values and carrying values of our senior notes:

	January 30, 2022		January 31, 2021	
in millions	Fair Value (Level 1)	Carrying Value	Fair Value (Level 1)	Carrying Value
Senior notes	$ 39,397	$ 35,815	$ 41,289	$ 34,472

8. STOCK-BASED COMPENSATION

Omnibus Stock Incentive Plans

The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan (the "2005 Plan") and The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan (the "1997 Plan" and collectively with the 2005 Plan, the "Plans") provide that incentive and nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, deferred shares, and other stock-based awards may be issued to certain of our associates and non-employee directors. Under the 2005 Plan, the maximum number of shares of our common stock authorized for issuance is 255 million shares, with any award other than a stock option or stock appreciation right reducing the number of shares available for issuance by 2.11 shares. At January 30, 2022, there were approximately 117 million shares available for future grants under the 2005 Plan. No additional equity awards could be issued from the 1997 Plan after the adoption of the 2005 Plan on May 26, 2005.

The following table presents total stock-based compensation expense, net of estimated forfeitures, including expense related to our ESPPs, and related income tax benefit:

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Pre-tax stock-based compensation expense	$ 403	$ 310	$ 251
Income tax benefit	(86)	(58)	(49)
After-tax stock-based compensation expense	$ 317	$ 252	$ 202

At January 30, 2022, there was $496 million of unamortized stock-based compensation expense, which is expected to be recognized over a weighted average period of two years.

The award types issued under the Plans are as follows:

Stock Options. Under the terms of the Plans, incentive stock options and nonqualified stock options must have an exercise price at or above the fair market value of our stock on the date of the grant. Typically, nonqualified stock options vest at the rate of 25% per year commencing on the second anniversary date of the grant and expire on the tenth anniversary date of the grant. Additionally, a majority of our stock options may become non-forfeitable upon the associate reaching age 60, provided the associate has had five years of continuous service. No incentive stock options have been issued under the 2005 Plan.

We estimate the fair value of stock option awards on the date of grant using the Black-Scholes option-pricing model. Our determination of fair value of stock option awards on the date of grant using the Black-Scholes option-pricing model is affected by our stock price as well as assumptions regarding a number of variables.

The following table presents the per share weighted average fair value of stock options granted and the assumptions used in determining fair value at the date of grant using the Black-Scholes option-pricing model:

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Per share weighted average fair value	$ 57.71	$ 36.77	$ 27.33
Risk-free interest rate	1.0 %	0.6 %	2.2 %
Assumed volatility	26.5 %	29.9 %	19.8 %
Assumed dividend yield	2.2 %	3.1 %	2.9 %
Assumed lives of options	6 years	6 years	5 years

The following table presents the total intrinsic value of stock options exercised:

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Total intrinsic value of stock options exercised	$ 237	$ 217	$ 241

The following table presents a summary of stock option activity by number of shares and weighted average exercise price during fiscal 2021:

shares in thousands	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	4,350	$ 129.50
Granted	277	295.92
Exercised	(955)	96.10
Forfeited	(31)	202.23
Outstanding at end of year	3,641	150.30

Shares of common stock issued from stock option exercises may be issued from authorized and unissued common stock or treasury stock.

The following table presents details regarding outstanding and exercisable stock options at January 30, 2022:

shares in thousands, dollars in millions, except for per share amounts	Number of Shares	Intrinsic Value	Weighted Average Remaining Life	Weighted Average Exercise Price
Outstanding	3,641	$ 787	5.0 years	$ 150.30
Exercisable	2,291	572	3.6 years	116.78

Restricted Stock and Performance Share Awards. Restrictions on the restricted stock issued under the Plans generally lapse over various periods up to five years. At the grant date of the award, recipients of restricted stock are granted voting rights and generally receive dividends on unvested shares, paid in the form of cash on each dividend payment date. Dividends paid on unvested shares were immaterial for fiscal 2021, fiscal 2020, and fiscal 2019. Additionally, the majority of our restricted stock awards may become non-forfeitable upon the associate's attainment of age 60, provided the associate has had five years of continuous service.

We have also granted performance share awards under the Plans. These awards provide for the issuance of shares of our common stock at the end of the three-year performance cycle based upon our performance against target average ROIC and operating profit over that performance cycle. Additionally, the awards become non-forfeitable upon the associate's attainment of age 60, provided the associate has had five years of continuous service and minimum performance targets are achieved. Recipients of performance share awards have no voting rights until the shares are issued following completion of the performance period. Dividend equivalents accrue on the performance shares (as reinvested shares) and are paid upon the payout of the award based upon the actual number of shares earned.

The fair value of the restricted stock and performance shares is based on the closing stock price on the date of grant and is expensed over the period during which the restrictions lapse.

Restricted Stock Units. Each restricted stock unit entitles the associate to one share of common stock to be received upon vesting up to five years after the grant date. Additionally, the majority of these awards may become non-forfeitable upon the associate reaching age 60, provided the associate has had five years of continuous service. Recipients of restricted stock units have no voting rights until the vesting of the award. Recipients receive dividend equivalents that accrue on unvested units and are paid out in the form of additional shares of stock on the vesting date. The fair value of the restricted stock units is based on the closing stock price on the date of grant and is expensed over the period during which the units vest.

The following table presents a summary of restricted stock, performance shares, and restricted stock unit activity during fiscal 2021:

shares in thousands	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	4,098	$ 180.87
Granted	1,264	293.63
Vested	(1,380)	176.00
Forfeited	(273)	214.98
Nonvested at end of year	3,709	218.60

The following table presents the total fair value of restricted stock, performance shares, and restricted stock units vested:

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Total fair value vested	$ 405	$ 271	$ 303

Deferred Shares. We grant awards of deferred shares to non-employee directors under the Plans. Each deferred share entitles the non-employee director to one share of common stock to be received following termination of Board service. Recipients of deferred shares have no voting rights and receive dividend equivalents that accrue and are paid out in the form of additional shares of stock upon payout of the underlying shares following termination of service. The fair value of the deferred shares is based on the closing stock price on the date of grant and is expensed immediately upon grant.

The following table presents deferred shares granted to non-employee directors:

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Deferred shares granted to non-employee directors	15,000	18,000	22,000

Employee Stock Purchase Plans

We maintain two ESPPs (a U.S. and a non-U.S. plan). The plan for U.S. associates is a tax-qualified plan under Section 423 of the Internal Revenue Code. The non-U.S. plan is not a Section 423 plan. At January 30, 2022, there were approximately 17 million shares available under the U.S. plan and approximately 19 million shares available under the non-U.S. plan. The purchase price of shares under the ESPPs is equal to 85% of the stock's fair market value on the last day of the purchase period, which is a six-month period ending on December 31 and June 30 of each year. During fiscal 2021, there were approximately one million shares purchased under the ESPPs at an average price of $305.14. Under the outstanding ESPPs at January 30, 2022, associates have contributed $22 million to purchase shares at 85% of the stock's fair market value on the last day of the current purchase period, June 30, 2022.

9. EMPLOYEE BENEFIT PLANS

We maintain active defined contribution retirement plans for our associates (the "Benefit Plans"). All associates satisfying certain service requirements are eligible to participate in the Benefit Plans. We make cash contributions each payroll period up to specified percentages of associates' contributions as approved by our Board of Directors.

We also maintain the Restoration Plan to provide certain associates deferred compensation that they would have received under the Benefit Plans as a matching contribution if not for the maximum compensation limits under the Internal Revenue Code. We fund the Restoration Plan through contributions made to a grantor trust, which are then used to purchase shares of our common stock in the open market.

The following table presents our contributions to the Benefit Plans and the Restoration Plan:

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Contributions to the Benefit Plans and the Restoration Plan	$ 278	$ 267	$ 213

At January 30, 2022, the Benefit Plans and the Restoration Plan held a total of 5.5 million shares of our common stock in trust for plan participants.

10. WEIGHTED AVERAGE COMMON SHARES

The following table presents the reconciliation of our basic to diluted weighted average common shares:

in millions	Fiscal 2021	Fiscal 2020	Fiscal 2019
Basic weighted average common shares	1,054	1,074	1,093
Effect of potentially dilutive securities (1)	4	4	4
Diluted weighted average common shares	1,058	1,078	1,097
Anti-dilutive securities excluded from diluted weighted average common shares	—	—	—

(1) Represents the dilutive impact of stock-based awards.

11. COMMITMENTS AND CONTINGENCIES

At January 30, 2022, we had outstanding letters of credit totaling $362 million, primarily related to certain business transactions, including insurance programs, trade contracts, and construction contracts.

We are involved in litigation arising in the normal course of business. In management's opinion, any such litigation is not expected to have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

12. HD SUPPLY ACQUISITION

On November 16, 2020, we announced that we entered into a definitive agreement to acquire HD Supply, a leading national distributor of MRO products to multifamily, hospitality, healthcare, and government housing facilities, among others. We believe the acquisition of HD Supply will help position the Company to accelerate sales growth by better serving both existing and new MRO customers. Under the terms of the merger agreement, a subsidiary of Home Depot made a cash tender offer to purchase all outstanding shares of HD Supply common stock for $56 per share. All of the conditions of the offer were satisfied, and the acquisition was completed on December 24, 2020. The acquisition was funded through cash on hand, a portion of which was replaced with the proceeds from our issuance of $3.0 billion of senior notes in January 2021.

The acquisition was accounted for in accordance with Accounting Standards Codification Topic 805 "Business Combinations" and, accordingly, HD Supply's results of operations have been consolidated in the Company's financial statements since December 24, 2020, the date of acquisition. We recorded a preliminary allocation of the purchase price to assets acquired and liabilities assumed based on their estimated fair values as of December 24, 2020. Adjustments to our preliminary purchase price allocation recognized in fiscal 2021 were immaterial, and our purchase price allocation is now finalized. Acquisition-related costs were expensed as incurred and totaled $110 million in fiscal 2020, including the $56 million charge related to the settlement of stock-based awards noted below.

The following table summarizes total purchase consideration:

in millions		
Total cash consideration for outstanding shares	$	8,637
Value of stock-based awards attributed to services already rendered [1]		55
Total purchase consideration	$	8,692

(1) *In connection with the completion of the acquisition, all HD Supply stock-based awards were cash settled for an aggregate value of $111 million. As the settlement of the awards was at the discretion of the Company, the portion of the fair value of the awards attributed to services previously provided of $55 million was included as part of purchase consideration, with the remaining $56 million recognized as post-combination expense within SG&A in our consolidated statement of earnings for fiscal 2020.*

The following table summarizes the recorded fair values of the assets acquired and liabilities assumed:

in millions		**Fair Value**
Cash	$	912
Other current assets		879
Goodwill		4,872
Other assets [1]		3,936
Total assets acquired	$	10,599
Current liabilities	$	817
Long-term liabilities [2]		1,090
Total liabilities assumed	$	1,907

(1) *Includes identifiable intangible assets of $3.3 billion.*

(2) *Includes deferred tax liabilities of $815 million primarily resulting from the difference in book and tax basis related to identifiable intangible assets.*

The fair value of identifiable intangible assets was determined by using certain estimates and assumptions that are not observable in the market. The fair values were determined using an income based approach, which included significant assumptions such as the amount and timing of projected cash flows, growth rates, customer attrition rates, discount rates, and the assessment of the asset's life cycle. The fair value and estimated useful lives of identifiable intangible assets follows:

in millions	Useful Life (Years)		Fair Value
Customer relationships	19	$	2,630
Trade name – indefinite lived	Indefinite		520
Trade names – definite lived	20		150
Total identifiable intangible assets		$	3,300

The goodwill arising from the acquisition is primarily attributable to operational synergies and acceleration of growth strategy, as well as the assembled workforce. The goodwill generated in the acquisition is not expected to be deductible for U.S. federal and state tax purposes.

Net sales and net earnings for fiscal 2020 attributable to HD Supply after the completion of the acquisition were immaterial. Pro forma results of operations would not be materially different as a result of the acquisition and therefore are not presented.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) promulgated under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of January 30, 2022 based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of January 30, 2022 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The effectiveness of our internal control over financial reporting as of January 30, 2022 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control Over Financial Reporting

We are in the process of an ongoing business transformation initiative, which began in fiscal 2020 and includes upgrading and migrating certain accounting and finance systems in the U.S. We plan to continue to migrate additional business processes over the course of the next few years and have modified and will continue to modify the design and implementation of certain internal control processes as the integration continues.

Except as described above, there were no other changes in our internal control over financial reporting during the fiscal quarter ended January 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors
The Home Depot, Inc.:

Opinion on Internal Control Over Financial Reporting
We have audited The Home Depot, Inc. and subsidiaries' (the Company) internal control over financial reporting as of January 30, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 30, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of January 30, 2022 and January 31, 2021, the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the fiscal years in the three-year period ended January 30, 2022, and the related notes (collectively, the consolidated financial statements), and our report dated March 23, 2022 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion
The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Atlanta, Georgia

March 23, 2022

Item 9B. Other Information.

Not applicable.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this item, other than the information regarding the executive officers set forth below, is incorporated by reference to the sections entitled “Election of Directors,” “Corporate Governance,” “General,” and “Audit Committee Report” in our Proxy Statement for the 2022 Annual Meeting of Shareholders (“Proxy Statement”).

Executive officers are appointed by, and serve at the pleasure of, the Board of Directors. Our executive officers are as follows:

ANN-MARIE CAMPBELL, age 56, has been Executive Vice President – U.S. Stores and International Operations since October 2020. From February 2016 to October 2020, she served as Executive Vice President – U.S. Stores, from January 2009 to February 2016, she served as Division President of the Southern Division, and from December 2005 to January 2009, she served as Vice President – Vendor Services. Ms. Campbell began her career with The Home Depot in 1985 as a cashier and has held roles of increasing responsibility since she joined the Company, including vice president roles in the Company’s operations, merchandising, and marketing departments. She serves as a director of Workday, Inc., a financial and human capital management software vendor.

MATTHEW A. CAREY, age 57, has been Executive Vice President and Chief Information Officer since September 2008. From January 2006 through August 2008, he served as Senior Vice President and Chief Technology Officer at eBay Inc., an online commerce platform. Mr. Carey was previously with Wal-Mart Stores, Inc., a general merchandise retailer, from June 1985 to December 2005. His final position with Wal-Mart was Senior Vice President and Chief Technology Officer.

JOHN DEATON, age 48, has been Executive Vice President – Supply Chain & Product Development since November 2021. From April 2021 to October 2021, he served as Senior Vice President – Operations, from May 2017 to April 2021, he served as Senior Vice President – Supply Chain, from July 2011 to April 2017 he served as Senior Vice President – Brand and Product Development, and from April 2007 to June 2011 he served as Vice President – Supply Chain.

EDWARD P. DECKER, age 59, has been our Chief Executive Officer and President since March 2022. He served as our President and Chief Operating Officer from October 2020 through February 2022. From August 2014 to October 2020, he served as Executive Vice President – Merchandising, and from October 2006 through July 2014, he served as Senior Vice President – Retail Finance, Pricing Analytics, and Assortment Planning. Mr. Decker joined The Home Depot in 2000 and held various strategic planning roles, including serving as Vice President – Strategic Business Development from November 2002 to April 2006 and Senior Vice President – Strategic Business and Asset Development from April 2006 to September 2006. Prior to joining the Company, Mr. Decker held various positions in strategic planning, business development, finance, and treasury at Kimberly-Clark Corp. and Scott Paper Co., both of which are consumer products companies.

TIMOTHY A. HOURIGAN, age 65, has been Executive Vice President – Human Resources since June 2017. From February 2016 through June 2017, he served as Division President of the Southern Division. Prior to his role as Division President, Mr. Hourigan served in various human resources roles with the Company, including Vice President – Human Resources, U.S. Stores and Operations from September 2013 to February 2016; Vice President – Compensation and Benefits from February 2007 to September 2013; and Vice President – Human Resources from July 2002 to February 2007.

JEFFREY G. KINNAIRD, age 48, has been Executive Vice President – Merchandising since October 2020. From January 2016 to October 2020, he served as President of The Home Depot Canada. Mr. Kinnaird joined the Company in July 1996 as a store associate in Canada and has held roles of increasing responsibility at The Home Depot Canada, including District Manager, Regional Vice President and Merchandising Vice President.

RICHARD V. McPHAIL, age 51, has been Executive Vice President and Chief Financial Officer since September 2019. From August 2017 through August 2019, he served as Senior Vice President, Finance Control and Administration, of the Company, and was responsible for enterprise financial reporting and operations, financial planning and analysis, treasury, payments, tax, and international financial operations. From August 2014 to September 2017, he served as Senior Vice President, Finance, with responsibility for U.S. Retail finance, strategic and financial planning, and business development activity. Mr. McPhail served as Senior Vice President, Global FP&A, Strategy, and New Business Development, from March 2013 to August 2014; Vice President, Strategic Business Development, from January 2007 to March 2013; and director of Strategic Business Development from May 2005 to January 2007. Prior to joining the Company in 2005, Mr. McPhail served as executive vice president of corporate finance for Marconi Corporation plc in London, England. Prior to Marconi, Mr. McPhail held positions with Wachovia Securities and with Arthur Andersen.

CRAIG A. MENEAR, age 64, has been the Chair of our Board of Directors since February 2015. He served as our Chief Executive Officer from November 2014 through February 2022. He also served as our President from November 2014 to October 2020. He previously served as our President, U.S. Retail from February 2014 through October 2014. From April 2007 through February 2014, he served as Executive Vice President – Merchandising, and from August 2003 through April 2007, he served as Senior Vice President – Merchandising. From 1997 through August 2003, Mr. Menear served in various management and vice president level positions in the Company's merchandising department, including Merchandising Vice President of Hardware, Merchandising Vice President of the Southwest Division, and Divisional Merchandise Manager of the Southwest Division.

HECTOR PADILLA, age 47, has been Executive Vice President – Outside Sales & Service since May 2021. He previously served as Division President of the Southern Division from June 2017 to May 2021, and Senior Vice President – Operations from November 2014 to June 2017. Mr. Padilla began his career with The Home Depot in 1994 as a store associate and has held roles of increasing responsibility since he joined the Company, serving in various management roles with oversight of field operations and services.

TERESA WYNN ROSEBOROUGH, age 63, has been Executive Vice President, General Counsel and Corporate Secretary since November 2011. From April 2006 through November 2011, Ms. Roseborough served in several legal positions with MetLife, Inc., a provider of insurance and other financial services, including Senior Chief Counsel – Compliance & Litigation and most recently as Deputy General Counsel. Prior to joining MetLife, Ms. Roseborough was a partner with the law firm Sutherland Asbill & Brennan LLP from February 1996 through March 2006 and a Deputy Assistant Attorney General in the Office of Legal Counsel of the United States Department of Justice from January 1994 through February 1996. Ms. Roseborough serves as a director of The Hartford Financial Services Group, Inc., an investment and insurance company.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to the sections entitled "Executive Compensation," "Director Compensation," and "Leadership Development and Compensation Committee Report" in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference to the sections entitled "Beneficial Ownership of Common Stock" and "Executive Compensation – Equity Compensation Plan Information" in our Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference to the section entitled "Corporate Governance" in our Proxy Statement.

Item 14. Principal Accountant Fees and Services.

The information required by this item is incorporated by reference to the section entitled "Independent Registered Public Accounting Firm's Fees" in our Proxy Statement.

PART IV

Item 15. Exhibit and Financial Statement Schedules.

The following documents are filed as part of this report:

1. Financial Statements

The following financial statements are set forth in Item 8 hereof:

- Report of Independent Registered Public Accounting Firm (KPMG LLP, Atlanta, GA, Auditor Firm ID: 185);
- Consolidated Balance Sheets as of January 30, 2022 and January 31, 2021;
- Consolidated Statements of Earnings for fiscal 2021, fiscal 2020, and fiscal 2019;

- Consolidated Statements of Comprehensive Income for fiscal 2021, fiscal 2020, and fiscal 2019;
- Consolidated Statements of Stockholders' Equity for fiscal 2021, fiscal 2020, and fiscal 2019;
- Consolidated Statements of Cash Flows for fiscal 2021, fiscal 2020, and fiscal 2019; and
- Notes to Consolidated Financial Statements.

2. Financial Statement Schedules

All schedules are omitted as the required information is inapplicable or the information is presented in our consolidated financial statements or related notes.

3. Exhibits

Exhibits not filed or furnished herewith are incorporated by reference to exhibits previously filed with the SEC, as reflected in the table below. Our Current, Quarterly, and Annual Reports are filed with the SEC under File No. 1-8207. Our Registration Statements have the file numbers noted wherever such statements are identified in the following list of exhibits. We will furnish a copy of any exhibit to shareholders without charge upon written request to Investor Relations, The Home Depot, Inc., 2455 Paces Ferry Road, Atlanta, Georgia 30339, via the internet at http://ir.homedepot.com, or by calling Investor Relations at (770) 384-2871.

Exhibit	Description	Reference
2.1	Agreement and Plan of Merger, dated as of November 15, 2020, by and among The Home Depot, Inc., Coronado Acquisition Sub Inc. and HD Supply Holdings, Inc.	Form 8-K filed November 18, 2020, Exhibit 2.1
3.1	Amended and Restated Certificate of Incorporation of The Home Depot, Inc.	Form 10-Q for the fiscal quarter ended July 31, 2011, Exhibit 3.1
3.2	By-Laws of The Home Depot, Inc. (Amended and Restated Effective February 28, 2019)	Form 8-K filed on March 4, 2019, Exhibit 3.2
4.1	Indenture, dated as of May 4, 2005, between The Home Depot, Inc. and The Bank of New York Trust Company, N.A., as Trustee	Form S-3 (File No. 333-124699) filed May 6, 2005, Exhibit 4.1
4.2	Indenture, dated as of August 24, 2012, between The Home Depot, Inc. and Deutsche Bank Trust Company Americas, as Trustee	Form S-3 (File No. 333-183621) filed August 29, 2012, Exhibit 4.3
4.3	Form of 5.875% Senior Note due December 16, 2036	Form 8-K filed December 19, 2006, Exhibit 4.3
4.4	Form of 5.40% Senior Note due September 15, 2040	Form 8-K filed September 10, 2010, Exhibit 4.2
4.5	Form of 5.95% Senior Note due April 1, 2041	Form 8-K filed March 31, 2011, Exhibit 4.2
4.6	Form of 2.700% Senior Note due April 1, 2023	Form 8-K filed April 5, 2013, Exhibit 4.2
4.7	Form of 4.200% Senior Note due April 1, 2043	Form 8-K filed April 5, 2013, Exhibit 4.3
4.8	Form of 3.750% Senior Note due February 15, 2024	Form 8-K filed September 10, 2013, Exhibit 4.3
4.9	Form of 4.875% Senior Note due February 15, 2044	Form 8-K filed September 10, 2013, Exhibit 4.4
4.10	Form of 4.40% Senior Note due March 15, 2045	Form 8-K filed June 12, 2014, Exhibit 4.3
4.11	Form of 2.625% Senior Note due June 1, 2022	Form 8-K filed June 2, 2015, Exhibit 4.2
4.12	Form of 4.250% Senior Note due April 1, 2046	Form 8-K filed June 2, 2015, Exhibit 4.3
4.13	Form of 3.35% Note due September 15, 2025	Form 8-K filed September 15, 2015, Exhibit 4.3
4.14	Form of 3.000% Senior Note due April 1, 2026	Form 8-K filed February 12, 2016, Exhibit 4.3
4.15	Form of 4.250% Senior Note due April 1, 2046	Form 8-K filed February 12, 2016, Exhibit 4.4
4.16	Form of 2.125% Senior Note due September 15, 2026	Form 8-K filed September 15, 2016, Exhibit 4.2
4.17	Form of 3.500% Senior Note due September 15, 2056	Form 8-K filed September 15, 2016, Exhibit 4.3
4.18	Form of 3.900% Senior Note due June 15, 2047	Form 8-K filed June 5, 2017, Exhibit 4.4
4.19	Form of 2.800% Note due September 14, 2027	Form 8-K filed September 14, 2017, Exhibit 4.2

Exhibit		Description	Reference
4.20		Form of Floating Rate Note due March 1, 2022	Form 8-K filed December 6, 2018, Exhibit 4.2
4.21		Form of 3.250% Senior Note due March 1, 2022	Form 8-K filed December 6, 2018, Exhibit 4.3
4.22		Form of 3.900% Senior Note due December 6, 2028	Form 8-K filed December 6, 2018, Exhibit 4.4
4.23		Form of 4.500% Senior Note due December 6, 2048	Form 8-K filed December 6, 2018, Exhibit 4.5
4.24		Form of 2.950% Note due June 15, 2029	Form 8-K filed June 17, 2019, Exhibit 4.2
4.25		Form of 3.900% Note due June 15, 2047	Form 8-K filed June 17, 2019, Exhibit 4.3
4.26		Form of 2.950% Note due June 15, 2029	Form 8-K filed January 13, 2020, Exhibit 4.2
4.27		Form of 3.125% Note due December 15, 2049	Form 8-K filed January 13, 2020, Exhibit 4.3
4.28		Form of 2.500% Note due April 15, 2027	Form 8-K filed March 30, 2020, Exhibit 4.2
4.29		Form of 2.700% Note due April 15, 2030	Form 8-K filed March 30, 2020, Exhibit 4.3
4.30		Form of 3.300% Note due April 15, 2040	Form 8-K filed March 30, 2020, Exhibit 4.4
4.31		Form of 3.350% Note due April 15, 2050	Form 8-K filed March 30, 2020, Exhibit 4.5
4.32		Form of 0.900% Note due March 15, 2028	Form 8-K filed January 7, 2021, Exhibit 4.2
4.33		Form of 1.375% Note due March 15, 2031	Form 8-K filed January 7, 2021, Exhibit 4.3
4.34		Form of 2.375% Note due March 15, 2051	Form 8-K filed January 7, 2021, Exhibit 4.4
4.35		Form of 1.500% Note due September 15, 2028	Form 8-K filed on September 21, 2021, Exhibit 4.2
4.36		Form of 1.875% Note due September 15, 2031	Form 8-K filed on September 21, 2021, Exhibit 4.3
4.37		Form of 2.750% Note due September 15, 2051	Form 8-K filed on September 21, 2021, Exhibit 4.4
4.38		Description of Securities	Form 10-K for the fiscal year ended February 2, 2020, Exhibit 4.33
10.1	†	The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended August 4, 2002, Exhibit 10.1
10.2	†	Form of Executive Employment Death Benefit Agreement	Form 10-K for the fiscal year ended February 3, 2013, Exhibit 10.2
10.3	†	The Home Depot Deferred Compensation Plan for Officers (As Amended and Restated Effective January 1, 2008)	Form 8-K filed on August 20, 2007, Exhibit 10.1
10.4	†	Amendment No. 1 to The Home Depot Deferred Compensation Plan for Officers (As Amended and Restated Effective January 1, 2008)	Form 10-K for the fiscal year ended January 31, 2010, Exhibit 10.4
10.5	†	Amendment No. 2 to The Home Depot Deferred Compensation Plan for Officers (As Amended and Restated Effective January 1, 2008)	Form 10-K for the fiscal year ended January 31, 2021, Exhibit 10.5
10.6	†	The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended May 5, 2013, Exhibit 10.1
10.7	†	Amendment No. 1 to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan and The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan	Form 10-K for the fiscal year ended January 31, 2010, Exhibit 10.6
10.8	†	The Home Depot FutureBuilder Restoration Plan	Form 8-K filed on August 20, 2007, Exhibit 10.2

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Exhibit		Description	Reference
10.9	†	Amendment No.1 to The Home Depot FutureBuilder Restoration Plan	Form 10-K for the fiscal year ended February 2, 2014, Exhibit 10.8
10.10	†	The Home Depot, Inc. Nonemployee Directors' Deferred Stock Compensation Plan	Form 8-K filed on August 20, 2007, Exhibit 10.3
10.11	†	The Home Depot, Inc. Amended and Restated Management Incentive Plan (Effective November 21, 2013)	Form 10-K for the fiscal year ended February 2, 2014, Exhibit 10.10
10.12	†	The Home Depot, Inc. Amended and Restated Employee Stock Purchase Plan, as amended and restated effective July 1, 2012	Form 10-Q for the fiscal quarter ended April 29, 2012, Exhibit 10.1
10.13	†	Form of Executive Officer Restricted Stock Award Pursuant to The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended October 31, 2004, Exhibit 10.1
10.14	†	Form of Executive Officer Nonqualified Stock Option Award Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 13, 2009, Exhibit 10.4
10.15	†	Form of Deferred Share Award (Nonemployee Director) Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on November 15, 2007, Exhibit 10.1
10.16	†	Form of Equity Award Terms and Conditions Agreement Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 2, 2011, Exhibit 10.1
10.17	†	Form of Executive Officer Equity Award Terms and Conditions Agreement Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 6, 2013, Exhibit 10.1
10.18	†	Form of Executive Officer Equity Award Agreement (Nonqualified Stock Option) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 8, 2016, Exhibit 10.1
10.19	†	Form of Executive Officer Equity Award Agreement (Performance Based Restricted Stock) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 8, 2016, Exhibit 10.2
10.20	†	Form of Executive Officer Equity Award Agreement (Performance Shares) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 8, 2016, Exhibit 10.3
10.21	†	Form of Deferred Share Award (Nonemployee Director) Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 10-K for the fiscal year ended January 29, 2017, Exhibit 10.21
10.22	†	Form of Executive Officer Equity Award Agreement (Performance Shares) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on February 28, 2018, Exhibit 10.1
10.23	†	Form of Executive Officer Equity Award Agreement (Performance Based Restricted Stock) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on February 28, 2018, Exhibit 10.2
10.24	†	Form of Executive Officer Equity Award Agreement (Nonqualified Stock Option) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on February 28, 2018, Exhibit 10.3
10.25	†	Form of Executive Officer Equity Award Agreement (Performance Shares) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 4, 2019, Exhibit 10.1

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Exhibit		Description	Reference
10.26	†	Form of Executive Officer Equity Award Agreement (Performance-Based Restricted Stock) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 4, 2019, Exhibit 10.2
10.27	†	Form of Executive Officer Equity Award Agreement (Nonqualified Stock Option) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 4, 2019, Exhibit 10.3
10.28	†	Form of Executive Officer Equity Award Agreement Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 2, 2020, Exhibit 10.1
10.29	†	Form of Executive Officer Restricted Stock and Stock Option Award Agreement Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended November 1, 2020, Exhibit 10.4
10.30	†	Form of Executive Officer Equity Award Agreement Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 1, 2021, Exhibit 10.1
10.31	†	Employment Arrangement between Craig A. Menear and The Home Depot, Inc., dated October 16, 2014	Form 10-Q for the fiscal quarter ended November 2, 2014, Exhibit 10.2
10.32	†	Employment Arrangement between Richard V. McPhail and The Home Depot, Inc., dated October 1, 2020	Form 10-Q for the fiscal quarter ended November 1, 2020, Exhibit 10.1
10.33	†	Employment Arrangement between Edward P. Decker and The Home Depot, Inc., dated October 1, 2020	Form 10-Q for the fiscal quarter ended November 1, 2020, Exhibit 10.2
10.34	†	Employment Arrangement between Ann-Marie Campbell and The Home Depot, Inc., dated October 1, 2020	Form 10-Q for the fiscal quarter ended November 1, 2020, Exhibit 10.3
10.36	†	Employment Arrangement between Matthew A. Carey and The Home Depot, Inc., dated August 22, 2008, as amended on September 3, 2008	Form 10-K for the fiscal year ended January 30, 2011, Exhibit 10.36
21	*	List of Subsidiaries of the Company	
23	*	Consent of Independent Registered Public Accounting Firm	
31.1	*	Certification of Chief Executive Officer and President pursuant to Rule 13a-14(a)	
31.2	*	Certification of Executive Vice President and Chief Financial Officer pursuant to Rule 13a-14(a)	
32.1	‡	Certification of Chief Executive Officer and President furnished pursuant Section 906 of the Sarbanes-Oxley Act of 2002	
32.2	‡	Certification of Executive Vice President and Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
101.INS	*	XBRL Instance Document - the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the Inline XBRL document	
101.SCH	*	XBRL Taxonomy Extension Schema Document	
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document	

Exhibit		Description	Reference
101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document	
104		Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	

† *Management contract or compensatory plan or arrangement*

* *Filed herewith*

‡ *Furnished (and not filed) herewith pursuant to Item 601(b)(32)(ii) of the SEC's Regulation S-K*

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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/ EDWARD P. DECKER

Edward P. Decker, Chief Executive Officer and President

Date: March 23, 2022

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of March 23, 2022.

Signature	Title
/s/ EDWARD P. DECKER Edward P. Decker	Chief Executive Officer, President and Director (Principal Executive Officer)
/s/ RICHARD V. MCPHAIL Richard V. McPhail	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ STEPHEN L. GIBBS Stephen L. Gibbs	Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)
/s/ CRAIG A. MENEAR Craig A. Menear	Chair of the Board
/s/ GERARD J. ARPEY Gerard J. Arpey	Director
/s/ ARI BOUSBIB Ari Bousbib	Director
/s/ JEFFERY H. BOYD Jeffery H. Boyd	Director
/s/ GREGORY D. BRENNEMAN Gregory D. Brenneman	Director
/s/ J. FRANK BROWN J. Frank Brown	Director
/s/ ALBERT P. CAREY Albert P. Carey	Director
/s/ LINDA R. GOODEN Linda R. Gooden	Director
/s/ WAYNE M. HEWETT Wayne M. Hewett	Director
/s/ MANUEL KADRE Manuel Kadre	Director
/s/ STEPHANIE C. LINNARTZ Stephanie C. Linnartz	Director
/s/ PAULA A. SANTILLI Paula A. Santilli	Director
/s/ CARYN SEIDMAN-BECKER Caryn Seidman-Becker	Director

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended January 31, 2021

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

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THE HOME DEPOT, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-3261426**
(State or other jurisdiction incorporation or organization)	(I.R.S. Employer Identification No.)
2455 Paces Ferry Road	
Atlanta, Georgia	**30339**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.05 Par Value Per Share	HD	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ 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 ☒ Accelerated filer ☐ Non-accelerated filer ☐ 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of voting common stock held by non-affiliates of the registrant on July 31, 2020 was $285.6 billion.

The number of shares outstanding of the registrant’s common stock as of March 5, 2021 was 1,077,069,383 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s proxy statement for the 2021 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K to the extent described herein.

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COMMONLY USED OR DEFINED TERMS

Term	Definition
ASR	Accelerated share repurchase
ASU	Accounting Standards Update
BODFS	Buy Online, Deliver From Store
BOPIS	Buy Online, Pickup In Store
BORIS	Buy Online, Return In Store
BOSS	Buy Online, Ship to Store
CDP	The not-for-profit organization formerly known as the Carbon Disclosure Project
CFL	Compact fluorescent light
Comparable sales	As defined in the Results of Operations and Non-GAAP Financial Measures section of MD&A
DIFM	Do-It-For-Me
DIY	Do-It-Yourself
EH&S	Environmental, Health, and Safety
EPA	U.S. Environmental Protection Agency
ESG	Environmental, social and governance
ESPP	Employee Stock Purchase Plan
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FIRST phone	Web-enabled handheld device used by associates in our stores
fiscal 2015	Fiscal year ended January 31, 2016 (includes 52 weeks)
fiscal 2016	Fiscal year ended January 29, 2017 (includes 52 weeks)
fiscal 2017	Fiscal year ended January 28, 2018 (includes 52 weeks)
fiscal 2018	Fiscal year ended February 3, 2019 (includes 53 weeks)
fiscal 2019	Fiscal year ended February 2, 2020 (includes 52 weeks)
fiscal 2020	Fiscal year ended January 31, 2021 (includes 52 weeks)
fiscal 2021	Fiscal year ending January 30, 2022 (includes 52 weeks)
GAAP	U.S. generally accepted accounting principles
HD Supply	HD Supply Holdings, Inc.
IRS	Internal Revenue Service
LIBOR	London interbank offered rate
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MRO	Maintenance, repair, and operations
NOPAT	Net operating profit after tax
NYSE	New York Stock Exchange
PLCC	Private label credit card
Pro	Professional customer
Restoration Plan	Home Depot FutureBuilder Restoration Plan
ROIC	Return on invested capital
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
SG&A	Selling, general, and administrative
Tax Act	Tax Cuts and Jobs Act of 2017

CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements contained herein, as well as in other filings we make with the SEC and other written and oral information we release, 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 impact of the COVID-19 pandemic and the related recovery on our business, results of operations, cash flows and financial condition (which, among other things, may affect many of the items listed below); the demand for our products and services; net sales growth; comparable sales; effects of competition; our brand and reputation; implementation of store, interconnected retail, supply chain and technology initiatives; inventory and in-stock positions; state of the economy; state of the housing and home improvement markets; state of the credit markets, including mortgages, home equity loans, and consumer credit; impact of tariffs; issues related to the payment methods we accept; demand for credit offerings; management of relationships with our associates, suppliers and service providers; international trade disputes, natural disasters, public health issues (including pandemics and quarantines, related shut-downs and other governmental orders, and similar restrictions, as well as subsequent re-openings), and other business interruptions that could disrupt supply or delivery of, or demand for, the Company’s products or services; continuation or suspension of share repurchases; 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 impact and expected outcome of investigations, inquiries, claims, and litigation, including compliance with related settlements; the effect of accounting charges; the effect of adopting certain accounting standards; the impact of regulatory changes, including changes to tax laws and regulations; store openings and closures; financial outlook; and the impact of acquired companies, including HD Supply, on our organization and the ability to recognize the anticipated 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, dependent on actions of third parties, or 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 Item 1A, “Risk Factors,” and elsewhere in this report and also as may be described from time to time in future reports we file with the SEC.

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 filings with the SEC and in our other public statements.

PART I

Item 1. Business.

Introduction

The Home Depot, Inc. is the world's largest home improvement retailer based on net sales for fiscal 2020. We offer our customers a wide assortment of building materials, home improvement products, lawn and garden products, décor products, and facilities maintenance, repair and operations products and provide a number of services, including home improvement installation services and tool and equipment rental. As of the end of fiscal 2020, we had 2,296 The Home Depot stores located throughout the U.S. (including the Commonwealth of Puerto Rico and the territories of the U.S. Virgin Islands and Guam), Canada, and Mexico. The Home Depot stores average approximately 104,000 square feet of enclosed space, with approximately 24,000 additional square feet of outside garden area. We also maintain a network of distribution and fulfillment centers, as well as a number of e-commerce websites. When we refer to "The Home Depot," the "Company," "we," "us" or "our" in this report, we are referring to The Home Depot, Inc. and its consolidated subsidiaries.

The Home Depot, Inc. is a Delaware corporation that was incorporated in 1978. Our Store Support Center (corporate office) is located at 2455 Paces Ferry Road, Atlanta, Georgia 30339. Our telephone number at that address is (770) 433-8211.

Our Business

Our Strategy

The retail landscape has changed rapidly over the past several years, with customer expectations constantly evolving and the agility required to meet these expectations increasing. In fiscal 2020, this trend was accelerated due to the COVID-19 pandemic, which both spurred significant growth in home improvement demand and drove operational changes required to promote customer and associate safety.

Our ability to operate successfully and meet the needs of our customers in the pandemic environment successfully was due in significant part to the transformational journey we began in 2017 to create the One Home Depot experience, our vision of an interconnected, frictionless shopping experience that enables our customers to seamlessly blend the digital and physical worlds. Our multi-year accelerated investment program to create this experience is now largely complete. Our investments have been guided by the following strategies:

- Invest using a "customer-back" approach
- Reinforce our position as the product authority in home improvement
- Deliver a best-in-class, interconnected shopping experience
- Extend our low-cost provider position

These strategic investments are designed to extend our current competitive advantages. We believe our primary competitive advantages are: (1) our culture and associates, (2) our premium real estate, (3) our world-class merchandising organization, (4) our flexible supply chain, and (5) our digital experience. Taken together, our One Home Depot vision and execution of the related strategies are helping us to meet our two principal business objectives: continue to grow our share of the highly competitive market in which we operate and deliver shareholder value. We believe that our efforts to build the One Home Depot experience, and the groundwork we laid in these areas over the past decade, position us well to meet our objectives in any environment and have been particularly important in navigating the challenges created by the pandemic. We achieved record sales in fiscal 2020, while remaining focused on two key priorities: the safety and well-being of our associates and customers and providing our customers and communities with the products and services they need.

We also remained focused on our objective to return value to our shareholders. We are steadfast in this commitment, while also recognizing that exercising corporate responsibility and being informed by the needs of our other stakeholders, including our customers, associates, supplier partners, and communities, creates value for all stakeholders, including our shareholders.

Our Customers

We serve two primary customer groups, consumers (including both DIY and DIFM customers) and professional customers, and have developed different approaches to meet their diverse needs:

DIY Customers. These customers are typically homeowners who purchase products and complete their own projects and installations. Our associates assist these customers both in our stores and through online resources and other media designed to provide product and project knowledge. We also offer a variety of clinics and workshops both to share this knowledge and to build an emotional connection with our DIY customers.

Professional Customers (or "Pros"). These customers are primarily professional renovators/remodelers, general contractors, handymen, property managers, building service contractors and specialty tradesmen, such as electricians, plumbers and painters. These customers build, renovate, remodel, repair and maintain residential properties, multifamily properties, hospitality properties and commercial facilities, including education, healthcare, government, institutional, and office buildings and facilities.

We have a number of initiatives to drive growth with our Pro customers, including a customized online experience, a dedicated sales force, an extensive delivery network, enhanced credit offerings and inventory management programs. In the fourth quarter of fiscal 2020, we extended our reach in the MRO marketplace with our acquisition of HD Supply, a leading national distributor of MRO products in the multifamily and hospitality end markets. Our MRO operations use a distribution center-based model that sells products primarily through a professional sales force, e-commerce and print catalogs. We recognize the great value our Pro customers provide to their clients, and we strive to make their jobs easier and help them grow their businesses. We believe that investments aimed at deepening our relationships with our Pro customers are yielding increased engagement and will continue to translate into incremental spend.

DIFM Customers. Intersecting our DIY customers and our Pros are our DIFM customers. These customers are typically homeowners who use Pros to complete their project or installation. Currently, we offer installation services in a variety of categories, such as flooring, cabinets and cabinet makeovers, countertops, furnaces and central air systems, and windows. DIFM customers can purchase these services in our stores, online, or in their homes through in-home consultations. In addition to serving our DIFM customer needs, we believe our focus on the Pros who perform services for these customers helps us drive higher product sales.

Our Products and Services

We believe our merchandising organization is a key competitive advantage, which we maintain by delivering product innovation, assortment and value, which reinforces our position as the product authority in home improvement. In fiscal 2020, we continued to invest in merchandising resets in our stores to refine assortments, introduce a wide range of innovative new products to our DIY and Pro customers, and improve visual merchandising to drive a better shopping experience. At the same time, we remain focused on offering everyday values in our stores and online.

A typical The Home Depot store stocks approximately 30,000 to 40,000 items during the year, including both national brand name and proprietary products. Our online product offerings complement our stores by serving as an extended aisle, and we offer a significantly broader product assortment through our websites, including homedepot.com, our primary website; blinds.com, our online site for custom window coverings; and thecompanystore.com, our online site for textiles and décor products.

To help our merchandising organization keep pace with changing customer expectations and increasing desire for innovation, localization and personalization, we are continuing to invest in tools to better leverage our data and drive a deeper level of collaboration with supplier partners. As a result, we have continued to focus on enhanced merchandising information technology tools to help us: (1) build an interconnected shopping experience that is tailored to our customers' personas, shopping context, and location; (2) ensure we have the best value in the market; and (3) optimize our product assortments.

To complement our merchandising efforts, we offer a number of services for our customers, including special programs for our Pro customers to meet their particular needs and installation services for our DIY and DIFM customers. We also provide tool and equipment rentals at over 1,300 locations across the U.S. and Canada, providing value and convenience for both our Pro and DIY customers. To improve the customer experience and continue to grow this differentiated service offering, we are continuing to invest in more locations, more tools, and better technology.

Sourcing and Quality Assurance. We maintain a global sourcing program to obtain high-quality and innovative products directly from manufacturers around the world. During fiscal 2020, in addition to our U.S. sourcing operations, we maintained sourcing offices in Mexico, Canada, China, India, Vietnam and Europe. To ensure that suppliers adhere to our high standards of social and environmental responsibility, we also have a global responsible sourcing program. Our suppliers are contractually obligated to ensure that their products comply with applicable international, federal, state and local laws. All of our suppliers must also comply with our responsible sourcing standards, which cover a variety of expectations across multiple areas of social compliance, including supply chain transparency, health and safety, environment, compensation, hours of work, and prohibitions on child and forced labor. To drive accountability with our suppliers, we conduct factory audits and compliance visits. Our 2020 Responsible Sourcing Report, available on our website at https://corporate.homedepot.com/responsibility/sourcing-responsibility, provides more information about this program. In addition, we have both quality assurance and engineering resources dedicated to establishing criteria and overseeing compliance with safety, quality and performance standards for our proprietary branded products.

Intellectual Property. Our business has one of the most recognized brands in North America. As a result, we believe that The Home Depot® trademark has significant value and is an important factor in the marketing of our products, e-commerce, stores and business. We have registered or applied for registration of trademarks, service marks, copyrights and internet domain names, both domestically and internationally, for use in our business, including our proprietary brands such as HDX®, Husky®, Hampton Bay®, Home Decorators Collection®, Glacier Bay®, Vigoro®, Everbilt® and Lifeproof®. The duration of trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained.

We also maintain patent portfolios relating to some of our products and services and seek to patent or otherwise protect innovations we incorporate into our products or business operations. Patents generally have a term of twenty years from the date they are filed. As our patent portfolio has been built over time, the remaining terms of the individual patents across our patent portfolio vary. Although our patents have value, no single patent is essential to our business. We will continue to assess our merchandising departments and product lines for opportunities to expand the assortment of products offered within The Home Depot's portfolio of proprietary and exclusive brands.

Competition and Seasonality

Our industry is highly competitive, very fragmented, and evolving. As a result, we face competition for our products and services from a variety of retailers, suppliers, distributors and manufacturers that sell products directly to their respective customer bases, and service providers, ranging from traditional brick-and-mortar, to multichannel, to exclusively online. These competitors include a number of other home improvement retailers; electrical, plumbing and building materials supply houses; and lumber yards. With respect to some products and services, we also compete with specialty design stores, showrooms, discount stores, local, regional and national hardware stores, paint stores, mail order firms, warehouse clubs, independent building supply stores, MRO companies, home décor retailers, and other retailers, as well as with providers of home improvement services and tool and equipment rental. The internet facilitates competitive entry, price transparency, and comparison shopping, increasing the level of competition we face.

We compete primarily based on customer experience, price, quality, availability, product assortment, and delivery options, both in-store and online. We also compete based on store location and appearance, presentation of merchandise, and ease of shopping experience. Furthermore, with respect to delivery options, customers are increasingly seeking faster and/or guaranteed delivery times, low-price or free shipping, and/or convenient pickup options, including curbside pickup. Our ability to be competitive on delivery and pickup times, options and costs depends on many factors, including the success of our supply chain investments, described more fully under "One Supply Chain" below.

Our business is subject to seasonal influences. Generally, our highest volume of sales occurs in our second fiscal quarter, and the lowest volume occurs either during our first or fourth fiscal quarter.

Interconnected Shopping Experience

Our customers are shopping and interacting with us differently today than they did several years ago. As a result, we have taken a number of steps to provide our customers with a seamless and frictionless interconnected shopping experience across our stores, online, on the job site, and in their homes, focusing on continued investments in our website and mobile apps to enhance the digital customer experience.

Digital Experience. Enhancements to our digital properties are critical for our increasingly interconnected customers, who research products online and check available inventory before going into one of our stores to view the products in person or talk to an associate and then make their purchase in store or online. While in the store, customers may also go online to access ratings and reviews, compare prices, view our extended assortment, and purchase additional products. Our investments in a truly interconnected experience are focused on bringing together the power of our physical retail presence and the frictionless interaction of our digital capabilities.

Many of our interconnected customers are also comfortable with a purely online shopping experience. A significant majority of the traffic in our digital channels is on a mobile device. Mobile customers expect more simplicity and relevancy in their digital interactions. As a result, we have made significant investments to our digital properties to improve the overall presentation and ease of navigation for the user. We have also enhanced the "shopability" of an online product by including more information on the product's landing page, including related products and/or parts of a collection, and a multitude of fulfillment options. Our focus on improving search capabilities, site functionality, category presentation, product content, speed to checkout, and enhanced fulfillment options has yielded higher traffic, better conversion and continued sales growth. It has also been critical during the pandemic, as customers have gravitated even more to the digital environment.

Further, we do not view the interconnected shopping experience as a specific transaction; rather, we believe it encompasses an entire journey from inspiration and know-how, to purchase and fulfillment, to post-purchase care and support, most of which takes place in the digital world. From the inspirational point of the purchase journey to providing product know-how, we are investing in the infrastructure and capabilities needed to deliver the most relevant marketing messages to our customers based upon what is important for them today. Customers expect more personalized messaging, so we are focusing on connecting marketing activities with the online and in-store experiences to create a seamless series of engagements across channels.

Store Experience. Our stores remain the hub of our business, and we are investing to improve the customer shopping experience through easier navigation and increasing the convenience and speed of checkout. For several years, our associates have used our FIRST phones to help expedite the online order checkout process, locate products in the aisles and online, and check inventory on hand. To improve the customer's experience in our stores, we have also empowered our customers with additional self-help tools, including mobile app-enabled store navigation. Our app provides store-specific maps, which allow customers to pinpoint the exact location of an item on their mobile devices.

We have also made significant progress in our strategic store investments. In fiscal 2020, we completed the implementation of our wayfinding sign and store refresh package in all of our U.S. stores. This package included more intuitive signage, better lighting, and other store enhancements. To support our interconnected growth, we continued the roll out of self-service lockers and online order storage areas at the front entrance to offer convenient pickup of online orders. We also tested our electronic shelf label capabilities, used initially in our appliance department, in additional merchandising departments. Our store investments also include the re-design of the front end area, including reconfigured service desks, improved layouts in all checkout areas, and expanded and enhanced self-checkout options. We completed the upgrade to our self-checkout machines in fiscal 2019; however, due to the unique challenges presented by the pandemic, we paused the updates of the rest of our front ends. As we continue to learn the new ways our customers interact with our stores, we will resume upgrades as appropriate. We believe the investments we have made to date are driving higher customer satisfaction scores.

Investing in Associate Productivity. We continually strive to improve our store operations for our associates. Our goal is to remove complexity and inefficient processes from the stores to allow our associates to focus on our customers. To this end, we have focused our efforts in such areas as optimizing product flow to decrease the amount of time a store associate spends locating product and to improve on-shelf product availability; creating a simpler order management system; expanding in-aisle, real-time mobile learning tools for our associates' own development and to assist with customer questions; and using labor model tools to better align associate activity with customer needs.

Investing in Safety. We are committed to maintaining a safe shopping and working environment for our customers and associates. We empower trained EH&S associates to evaluate, develop, implement and enforce policies, processes and programs on a Company-wide basis. Our EH&S policies are woven into our everyday operations and are part of The Home Depot culture. Some common program elements include: daily store inspection checklists (by department); routine follow-up audits from our store-based safety team members and regional, district and store operations field teams; equipment enhancements and preventative maintenance programs to promote physical safety; departmental merchandising safety standards; training and education programs for all associates, with varying degrees of training provided based on an associate's role and responsibilities; and awareness, communication and recognition programs designed to drive operational awareness and an understanding of EH&S matters. We also implemented a number of additional measures for the safety of our associates and customers in response to the COVID-19 pandemic.

One Supply Chain

We continue to focus on building best-in-class competitive advantages in our information technology and supply chain to be responsive to our customers' expectations for how, when and where they choose to receive our products and services. As part of creating the One Home Depot experience, we are investing approximately $1 billion in the multi-year development of our One Supply Chain network, with the goal of achieving the fastest, most efficient delivery capabilities in home improvement. Our efforts are focused on ensuring product availability and increasing the speed and reliability of delivery for our customers while managing our costs.

We centrally forecast and replenish the vast majority of our store products through sophisticated inventory management systems and utilize our network of distribution centers to serve both our stores' and customers' needs. Our supply chain includes multiple distribution center platforms in the U.S., Canada, and Mexico tailored to meet the needs of our stores and customers based on types of products, location, transportation, and delivery requirements. These platforms primarily include rapid deployment centers, stocking distribution centers, bulk distribution centers, and direct fulfillment centers. As part of building One Supply Chain, we have invested to further automate and mechanize our rapid deployment center network to drive efficiency and faster movement of product.

We are also expanding our fulfillment network, investing in a significant number of new fulfillment facilities to drive speed and reliability of delivery for our customers and to help us meet our goal of reaching 90% of the U.S. population with same or next day delivery for extended home improvement and MRO product offerings, including big and bulky products. These facilities include omni-channel fulfillment centers, which deliver product directly to customers, and market delivery operations, which function as local hubs to consolidate freight for dispatch to customers for the final mile of delivery, with a focus on items like appliances. We are also adding flatbed distribution centers, which handle large items like lumber that are transported on flatbed trucks. As of the end of fiscal 2020, we have opened several of these various types of fulfillment facilities and will continue to build out our fulfillment network over the next few years. This network is designed to create a competitive advantage with unique, industry-leading capabilities for home improvement needs.

In addition to our distribution and fulfillment centers, we leverage our approximately 2,000 U.S. stores as a network of convenient customer pickup, return, and delivery fulfillment locations. Our premium real estate footprint provides a distinct structural and competitive advantage. For customers who shop online and wish to pick up or return merchandise at, or have merchandise delivered from, our U.S. stores, we have fully implemented our four interconnected retail programs: BOSS, BOPIS, BODFS, and BORIS. In fiscal 2020, to meet customer needs due to the pandemic, we rapidly rolled out curbside pickup to complement our BOPIS offerings, in addition to the self-service lockers at the front entrance of many of our stores. We also offer express car and van delivery service that covers over 70% of the U.S. population. As of the end of fiscal 2020, approximately 60% of our U.S. online orders were fulfilled through a store. We also continue to focus on developing new capabilities to improve both efficiency and customer experience in our store delivery program. Our strategic intent is to have a portfolio of efficient, timely and reliable sources and methods of delivery to choose from, optimizing order fulfillment and delivery based on customer needs, inventory locations and available transportation links.

Corporate Responsibility and Human Capital Management

We organize our environmental, social and governance efforts around three pillars: (1) Focus on People, (2) Operate Sustainably, and (3) Strengthen our Communities. Highlights of each of these pillars are set forth below. These pillars are reflective of our commitment to ESG and are fundamentally embedded in our operations and culture. We believe this approach creates value for all of our stakeholders, including our customers, associates, supplier partners, and the communities we serve, in turn creating long-term value for our shareholders. For further information on our three pillars and other ESG-related matters, see our annual Responsibility Report, available on our website at https://corporate.homedepot.com/responsibility.

Focus on People. Our culture and our associates provide intangible and hard-to-replicate competitive advantages. We leverage these competitive advantages to provide an outstanding customer experience by putting customers first and taking care of our associates.

Culture and Values. The Home Depot has a strong commitment to ethics and integrity, and we are a values- and culture-centric business. Our commitment to our core values drives our approach to human capital management. Our culture is based on our servant leadership philosophy represented by the inverted pyramid, which puts primary importance on our customers and our associates by positioning them at the top, with senior management at the base in a support role. We bring our culture to life through our core values, which serve as the foundation of our business and the guiding principles behind the decisions we make every day.

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We empower our associates to deliver a superior customer experience by living our values, and we position our associates to embody our core values by integrating the importance of our culture into ongoing development programs, performance management practices, and rewards programs. Leaders participate in programs designed to build and strengthen our culture, such as training on leadership skills, cross-functional collaboration, inclusiveness, associate engagement, and unconscious bias. Our core values are at the root of all of our human capital management programs.

Our Workforce. At the end of fiscal 2020, we employed approximately 504,800 associates, of whom approximately 35,700 were salaried, with the remainder compensated on an hourly basis. Set forth below is the geographic makeup of our workforce.

Geographic Location	Number of Associates	% of Total Workforce
United States	451,500	89.4%
Canada	34,400	6.8%
Mexico	18,600	3.7%
Other[1]	300	0.1%
Total	**504,800**	**100%**

[1] Includes associates in our sourcing organization located in China, Vietnam, India, Italy, Poland and Turkey.

Talent Attraction and Development. As we attract and hire new associates, we strive to create a customer-like experience for jobseekers as they progress through the steps of our recruiting process by focusing on speed and personalization. We employ targeted marketing practices through our careers website, which personalizes the user's experience based on jobseeker location and searching behavior. Jobseekers can also apply for roles from anywhere using any device. Once a jobseeker has applied for a role, we prioritize self-service by allowing candidates to schedule or reschedule interviews directly from their mobile device. Lastly, we create a quick hiring process for candidates by leveraging job-matching automation.

We offer all of our associates the opportunity to benefit from robust development opportunities. We invest in ongoing growth and development by integrating our culture and values into our performance management practices, providing coaching through continuous leader support, and empowering our associates to learn new skills at their own pace through mobile applications our associates can access at any time. We equip our leaders with the tools they need to develop themselves and their teams through several programs designed to help them lead inclusively, empower their teams, and serve as mentors for our associates.

Associate Engagement. Associate engagement is the emotional commitment associates have to The Home Depot and our goals. It is vital to our culture and to our success. We create an engaging workplace by continuously listening to and acting on associate feedback. We provide several pulse check surveys to groups of associates throughout the year that help us determine how emotionally connected those associates are to our customers, the Company, their jobs, fellow associates, and leaders. In addition, our annual Voice of the Associate survey, which includes all associates, serves as our primary means of gauging associates' level of engagement within their roles. We use the feedback from these surveys to help improve the overall associate experience. Through the years, the results from our surveys have consistently indicated that, on average, four out of five associates are emotionally committed and fully engaged. We also maintain a digital associate engagement platform that links associates with common interests and fuels connections to co-workers and company leaders. Additionally, we have a number of programs to recognize stores and individual associates for exceptional customer service.

Diversity and Inclusion. We believe that a diverse and inclusive workplace is key to our success. We are committed to our core values, and we strive to foster a diverse and inclusive environment where our associates are valued and respected. We work to build a workplace, retail space, and Company that reflects the customers and communities we serve. In particular, in 2020 we elevated and expanded our Office of Diversity, Equity and Inclusion to enhance our focus on associate diversity, supplier diversity, and our support of community- and education-related programs designed to close the wealth gap and enhance education outcomes across underserved and under-represented communities.

2020 Diversity & Inclusion Data[1]

Associate Population	Race/Ethnicity	
	% Minority	% White
U.S. Workforce	47%	53%
U.S. Managers & Above[2]	35%	65%
U.S. Officers	25%	75%

(1) Information as of December 1, 2020, consistent with the date used to collect comparable data for our reporting of workforce diversity data to the Equal Opportunity Employment Commission.

(2) Does not include officers.

As a Company, we have identified several priorities designed to guide our efforts to enhance diversity, equity and inclusion. We believe these associate- and supplier-focused priorities also enhance our customers' experience:

- Associates
  - Increase diverse representation throughout our organization
  - Create an environment where every associate feels included and valued for who they are
  - Promote equal opportunity in recruitment, hiring, training, development and advancement
- Suppliers
  - Increase use of and spend with diverse suppliers
  - Develop diverse suppliers by providing mentorship and sharing resources

Compensation and Benefits. Consistent with our core values, we take care of our people by offering competitive compensation and comprehensive benefits programs. We continuously make wage investments to ensure our compensation packages reflect the evolving circumstances across our markets, and our profit-sharing program for hourly associates provides semi-annual cash awards for performance against our business plan. In the third quarter of fiscal 2020, we began to transition from the temporary COVID-19 benefits we provided to our associates during the pandemic (as discussed in more detail below) to permanent compensation enhancements for our frontline, hourly associates. In addition, our associates can take advantage of a range of benefits, including healthcare and wellness programs, a 401(k) match, personal finance education and advisory services, assistance programs to help with managing personal and work-life challenges, family support programs, and educational assistance.

Our Response to COVID-19. Our decisions and actions throughout the pandemic have been guided by our culture and rooted in our commitment to our values of doing the right thing and taking care of our associates. In fiscal 2020, we provided enhanced pay and benefits to our associates to help alleviate some of the challenges they may have been facing because of the pandemic. Over the course of the year, the enhanced pay and benefits included the following:

- An additional 80 hours of paid time off for all full-time hourly associates and 40 hours of paid time off for part-time hourly associates to be used at their discretion and paid out if not used.
- For associates 65 years of age or older or who fell into a high-risk category according to guidelines of the federal Centers for Disease Control and Prevention, we provided a total of 160 additional

hours of paid time off for full-time hourly associates and 80 additional hours for part-time hourly associates.

- Additional weekly bonuses to hourly associates in stores and distribution and fulfillment centers.
- Double pay for overtime hours worked by hourly associates.
- Extended dependent care benefits with the related co-pays waived.
- Unlimited emotional and mental health counseling visits for associates.

As noted above, in the third quarter of fiscal 2020, we began to transition from these temporary COVID-19 benefits to permanent compensation enhancements for our frontline, hourly associates. For fiscal 2020, the enhanced pay and benefits collectively resulted in additional expense of approximately $2.0 billion.

Operating Sustainably. We have a long-standing and substantial commitment to sustainable business operations, from the products and services we offer to our customers; to our store construction, maintenance and operations; to our supply chain and packaging initiatives; to an ethical sourcing program. As we strive to operate sustainably, we have focused on protecting the climate, reducing our environmental impact, and sourcing responsibly, and we have set specific, measurable goals to drive progress in these areas.

Our 2020 Responsibility Report, available on our website at https://corporate.homedepot.com/responsibility, includes more information on our goals, as well as specific initiatives we have in place to help achieve these goals. Below are highlights of our sustainability program.

Our Environmental Goals. We currently have several major commitments to help combat climate change and reduce our environmental footprint:

Year Announced	Goal	Progress
2015	**Store Energy Usage**: Reduce our U.S. stores' kilowatt-hour energy use by 20% over 2010 levels by 2020	**Completed**
2015	**Renewable/Alternative Energy Sources**: Produce and procure, on an annual basis, 135 megawatts of energy through renewable or alternative energy sources, such as wind, solar and fuel cell technology, by 2020	**Completed**
2017	**Customer Greenhouse Gas Emissions**: Help reduce North American customers' greenhouse gas emissions by 20 million metric tons by 2020	**Completed**
2017	**Customer Energy and Water Savings**: Help customers save $2.5 billion in electricity costs and reduce water use by 250 billion gallons by 2020	**Completed**
2017	**Paint Chemical Reduction**: Reduce suspect chemicals in paints by 2020	**Completed**
2018	**Cleaning Products Chemical Reduction**: Reduce suspect chemicals in cleaning products by 2022	**In Process**
2018	**Science-Based Carbon Emissions Targets**: Commit to a 2.1% annual reduction in carbon emissions, with the goal to achieve a 40% reduction by 2030 and a 50% reduction by 2035	**In Process**
2019	**Recyclable Packaging**: Exclude expanded polystyrene foam (EPS) and polyvinyl chloride (PVC) film from the packaging of private-brand products we sell, replacing them with easier-to-recycle materials by 2023	**In Process**
2020	**NEW GOAL for Renewable/ Alternative Energy Sources**: Produce or procure, on an annual basis, 335 megawatts of renewable or alternative energy by 2025	**In Process**

Our Environmental Programs and Initiatives. In order to progress against these goals, we have a large number of environmentally-focused programs and initiatives, including:

- *Store Operations and Renewable/Alternative Energy*. We have reduced store energy consumption through initiatives such as LED lighting upgrades; installation of energy efficient HVAC systems; participation in demand mitigation; on-site alternative or renewable energy projects such as fuel cells and solar panels; and contracts with off-site wind and solar power providers.
- *Product Offerings.* Through our Eco Options® program introduced in 2007, we have helped our customers more easily identify products that meet specifications for energy efficiency, water conservation, healthy home, clean air, and sustainable forestry. Beginning in 2019, we added circular economy, which targets the reduction of waste through recycling and reuse. Under our

Eco Options program, we sell ENERGY STAR® certified appliances; WaterSense®-labeled bath faucets, showerheads, aerators, toilets, and irrigation controllers; LED light bulbs; tankless water heaters, and many other products. These products, through proper use, help our customers save money on their utility bills and reduce their environmental impact.

- *In-Store Recycling Programs.* We offer recycling programs in the U.S., including in-store recycling programs for CFL bulbs, rechargeable batteries, and cardboard, and a lead acid battery exchange program.

- *Chemical Strategy.* We are committed to increasing our assortment of products that meet high environmental standards, and we encourage our suppliers to invest in developing environmentally-innovative products. Each year, we evaluate our Chemical Strategy, first published in 2017, to ensure our approach and goals are appropriate.
- *Sustainable Packaging.* In addition to our goal related to EPS and PVC, we are continually working with suppliers to find ways to make product packaging more recyclable or simply use less materials, such as the reduction of single-use plastics.
- *Supply Chain Optimization.* Through our One Supply Chain initiatives, we are working to optimize every load and maximize every mile to make our supply chain more efficient. We also utilize hydrogen fuel cell technology in our forklifts and have started using electric 18-wheelers for deliveries to make our supply chain even more environmentally friendly.
- *CDP Participation*. We are a long-standing participant in the annual CDP reporting process. CDP is an independent, international, not-for-profit organization providing a global system for companies and cities to measure, disclose, manage, and share environmental information. In January 2021, we received a score of “A-” from CDP, reflecting leadership and a high level of action on climate change mitigation, adaptation and transparency.

Over the past several years, our commitment to sustainable operations has resulted in a number of environmental awards and recognitions, including EPA Retail Partner of the Year – Sustained Excellence for our overall excellence in energy efficiency; EPA WaterSense® Sustained Excellence Award for our overall excellence in water efficiency; and EPA SmartWay Excellence Award, which recognized us as an industry leader in freight supply chain environmental performance and energy efficiency.

Strengthen our Communities. One of our core values is “Giving Back,” and we support our communities in a number of ways. The Home Depot Foundation focuses on improving the lives of U.S. veterans, assisting communities affected by natural disasters, and training skilled tradespeople to fill the labor gap. Our Team Depot associate volunteers provide hundreds of thousands of volunteer hours each year on a wide variety of projects. We partner with diverse suppliers and organizations to further support our diversity, equity and inclusion efforts. We have also contributed more than $50 million to support community needs during the COVID-19 pandemic. Please see our 2020 Responsibility Report for additional information.

Deliver Shareholder Value

We deliver on our objective to create shareholder value through our disciplined approach to capital allocation. Our first use of cash is to reinvest in our business to drive growth faster than the market. In fiscal 2020, we achieved this growth through our continued investments to create the One Home Depot experience. We also focus on driving productivity throughout the business to lower our costs. The combination of reinvesting in the business to drive higher sales and lowering costs creates what we refer to as a virtuous cycle, which has allowed us to improve the customer experience, increase our competitiveness in the market, and deliver shareholder value.

The use of the remainder of our cash is guided by our shareholder return principles:

- *Dividend Principle.* We look to increase our dividend every year as we grow earnings.
- *Return on Invested Capital Principle.* Our goal is to maintain a high return on invested capital, benchmarking all uses of excess liquidity against the value created for our shareholders through share repurchases.
- *Share Repurchase Principle.* After meeting the needs of the business, we will look to return excess cash to shareholders in the form of share repurchases.

Following these principles, we increased our dividend in February 2020, returning value to shareholders through $6.5 billion in cash dividends, which we maintained throughout the year. We had cash payments of $791 million for share repurchases in the first quarter of fiscal 2020, until we suspended share repurchases in March 2020 to ensure sufficient liquidity to meet the needs of the business during the pandemic. Share repurchases remain part of our strategy for returning value to shareholders, and we resumed our share repurchases in the first quarter of fiscal 2021. Our capital allocation is discussed further in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Government Regulation

As a company with both U.S. and international operations, we are subject to the laws of the U.S. and foreign jurisdictions in which we operate and the rules and regulations of various governing bodies, which may differ among jurisdictions. Compliance with these laws, rules and regulations has not had, and is not expected to have, a material effect on our capital expenditures, results of operations or competitive position as compared to prior periods.

Available Information

Our internet website is www.homedepot.com. We make available on the Investor Relations section of our website, free of charge, our Annual Reports to shareholders, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and Forms 3, 4 and 5, and amendments to those reports, as soon as reasonably practicable after filing such documents with, or furnishing such documents to, the SEC.

We include our website addresses throughout this report for reference only. The information contained on our websites is not incorporated by reference into this report.

Item 1A. Risk Factors.

Our business, results of operations, and financial condition are subject to numerous risks and uncertainties. In connection with any investment decision with respect to our securities, you should carefully consider the following risk factors, as well as the other information contained in this report and our other filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. Should any of these risks materialize, our business, results of operations, financial condition and future prospects could be negatively impacted, which in turn could affect the trading value of our securities. You should read these Risk Factors in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and our consolidated financial statements and related notes in Item 8.

Strategic Risks

Strong competition could adversely affect prices and demand for our products and services and could decrease our market share.

Our industry is highly competitive, highly fragmented, and evolving. As a result, we face competition for our products and services from a variety of retailers, suppliers, distributors and manufacturers that sell products directly to their respective customer bases, and service providers, ranging from traditional brick-and-mortar, to multichannel, to exclusively online. These competitors include a number of other home improvement retailers; electrical, plumbing and building materials supply houses; and lumber yards. With respect to some products and services, we also compete with specialty design stores, showrooms, discount stores, local, regional and national hardware stores, paint stores, mail order firms, warehouse clubs, independent building supply stores, MRO companies, home décor retailers, and other retailers, as well as with providers of home improvement services and tool and equipment rental. The internet facilitates competitive entry, price transparency, and comparison shopping, increasing the level of competition we face.

We compete primarily based on customer experience, price, quality, availability, product assortment, and delivery options, both in-store and online. We also compete based on store location and appearance, presentation of merchandise, and ease of shopping experience. Furthermore, customers are increasingly seeking faster and/or guaranteed delivery times, low-price or free shipping, and/or convenient pickup options, including curbside pickup. Our ability to be competitive on delivery and pickup times, options and costs depends on many factors, including the success of our investments in One Supply Chain and the One Home Depot experience, and our failure to successfully manage these factors and offer competitive delivery and pickup options could negatively impact the demand for our products and our profit margins.

We use our marketing, advertising and promotional programs to drive customer traffic and compete more effectively, and we must regularly assess and adjust our efforts to address changes in the competitive landscape. Intense competitive pressures from one or more of our competitors, such as through aggressive promotional pricing or liquidation events, or our inability to adapt effectively and quickly to a changing competitive landscape, could adversely affect our prices, our margins, or demand for our products and services. If we are unable to timely and appropriately respond to these competitive pressures, including through the delivery of a superior customer experience or maintenance of effective marketing, advertising or promotional programs, our market share and our financial performance could be adversely affected.

We may not timely identify or effectively respond to consumer needs, expectations or trends, which could adversely affect our relationship with customers, the demand for our products and services, and our market share.

The success of our business depends in part on our ability to identify and respond promptly to evolving trends in demographics; consumer preferences, expectations and needs; and unexpected weather conditions, public health issues (including pandemics and quarantines and related shut-downs, re-openings, or other actions by the government) or natural disasters, while also managing appropriate inventory levels in our stores and distribution or fulfillment centers and maintaining an excellent customer experience. It is difficult to successfully predict the products and services our customers will demand. As our customers begin to expect a more personalized experience, our ability to collect, use and protect relevant customer data is important to our ability to effectively meet their expectations. Our ability to collect and use that data, however, is subject to a number of external factors, including the impact of legislation or regulations governing data privacy and security. In addition, each of our primary customer groups has different needs and expectations, many of which evolve as the demographics in a particular customer group change. We also need to offer more localized assortments of our merchandise to appeal to local cultural and demographic tastes within each customer group. If we do not successfully differentiate the shopping experience to meet the individual needs and expectations of or within a customer group, we may lose market share with respect to those customers.

Customer expectations about the methods by which they purchase and receive products or services are also becoming more demanding. Customers routinely use technology and a variety of electronic devices and digital platforms to rapidly compare products and prices, read product reviews, determine real-time product availability, and purchase products. Once products are purchased, customers are seeking alternate options for delivery of those products, and they often expect quick, timely, and low-price or free delivery and/or convenient pickup options. We must continually anticipate and adapt to these changes in the purchasing process. We have our BOSS, BOPIS, BODFS and direct fulfillment delivery options, but we cannot guarantee that these or future programs will be maintained and implemented successfully or that we will be able to meet customer expectations on delivery or pickup times, options and costs.

In addition, a greater concentration of online sales with direct fulfillment or curbside pickup could result in a reduction in the amount of traffic in our stores, which would, in turn, reduce the opportunities for cross-selling of merchandise that such traffic creates and could reduce our overall sales and adversely affect our financial performance.

Failure to provide a compelling online presence; to timely identify or respond to changing consumer preferences, expectations and home improvement needs; to maintain appropriate inventory; to provide quick and low-price or free delivery alternatives and convenient pickup options; to differentiate the customer experience for our primary customer groups; and to effectively implement an increasingly localized merchandising assortment could adversely affect our relationship with customers, the demand for our products and services, and our market share.

A positive brand and reputation are critical to our business success, and, if our brand and reputation are damaged, it could negatively impact our relationships with our customers, associates, suppliers and vendors, and, consequently, our business and results of operations.

Our brand and reputation are critical to attracting customers, associates, suppliers and vendors to do business with us. We must continue to manage and protect our brand and reputation. Negative incidents can erode trust and confidence quickly, and adverse publicity about us could damage our brand and reputation, undermine our customers’ confidence, reduce demand for our products and services, affect our ability to recruit, engage, motivate and retain associates, attract regulatory scrutiny, and impact our relationships with current and potential suppliers and vendors. Further, our actual or perceived position or lack of position on social, environmental, political, public policy or other sensitive issues, and any perceived lack of transparency about those matters, could harm our reputation with certain groups. Customers are also increasingly using social media to provide feedback and information about our Company, including our products and services, in a manner that can be quickly and broadly disseminated. Negative sentiment about the Company shared over social media could impact our brand and reputation, whether or not it is based in fact.

The implementation of initiatives to build One Supply Chain and create the One Home Depot experience could disrupt our operations in the near term, and these initiatives might not provide the anticipated benefits or might fail.

We have been substantially increasing our investments to create the One Home Depot experience, including significant investments over several years to build One Supply Chain. These investments are designed to streamline our operations to allow our associates to continue to provide high-quality service to our customers; simplify customer interactions; provide our customers with a more interconnected shopping experience; and create the fastest, most efficient delivery network for home improvement products. Failure to choose the right investments and implement them in the right manner and at the right pace could disrupt our operations. Creating the One Home Depot experience requires significant investment in our operations and information technology systems, as well as the development and execution of new processes, systems and support. Building One Supply Chain also involves significant real estate projects as we expand our distribution network. If we are unable to effectively manage the volume, timing, nature and cost of these investments, projects and changes, our business operations and financial results could be materially and adversely affected. The cost and potential problems, defects of design, and interruptions associated with the implementation of these initiatives, including those associated with managing third-party service providers, employing new web-based tools and services, implementing new technologies, implementing and restructuring support systems and processes, identifying appropriate facility locations, and addressing impacts on inventory levels, could disrupt or reduce the efficiency of our operations in the near term, lead to product availability issues, and impact our profitability.

In addition, our stores are a key element of the One Home Depot experience by serving as the hub of our customers' interconnected shopping experience. We have an aging store base that requires maintenance, investment, and space reallocation initiatives to deliver the shopping experience that our customers desire. Our investments in our stores may not deliver the relevant shopping experience our customers expect or fully support an interconnected shopping experience. We must also maintain a safe store environment for our customers and associates, as well as to protect against loss or theft of our inventory (also called "shrink"). Higher rates of shrink, which we continue to experience, can require operational changes that may increase costs and impact the customer experience.

Creating the One Home Depot experience and building One Supply Chain might not provide the anticipated benefits, it might take longer than expected to complete these initiatives or realize the anticipated benefits, or these initiatives might fail altogether, each of which could adversely impact our competitive position and our financial condition, results of operations, or cash flows.

If we are unable to effectively manage and expand our alliances and relationships with selected suppliers of both brand name and proprietary products, we may be unable to effectively execute our strategy to differentiate ourselves from our competitors.

As part of our focus on product differentiation, we have formed strategic alliances and exclusive relationships with selected suppliers to market products under a variety of well-recognized brand names. We have also developed relationships with selected suppliers to allow us to market proprietary products that are comparable to national brands. Our proprietary products differentiate us from other retailers, generally carry higher margins than national brand products, and represent a growing portion of our business. If we are unable to manage and expand these alliances and relationships, maintain favorable terms with current suppliers, or identify alternative sources for comparable brand name and proprietary products, we may not be able to effectively execute product differentiation, which may impact our sales and gross margin results.

Our strategic transactions involve risks, which could have an adverse impact on our business, financial condition and results of operations, and we may not realize the anticipated benefits of these transactions.

We regularly consider and enter into strategic transactions, including mergers, acquisitions, investments, alliances, and other growth and market expansion strategies, with the expectation that these transactions will result in increases in sales, cost savings, synergies and various other benefits. In the fourth quarter of fiscal 2020, we acquired HD Supply, a leading national distributor of MRO products in the multifamily and hospitality end markets. Assessing the viability and realizing the benefits of the HD Supply acquisition and our other transactions is subject to significant uncertainty. For each of our acquisitions, we need to determine the appropriate level of integration of the target company's products, services, associates, and information technology, financial, human resources, compliance, and other systems and processes, and then successfully manage that integration into our corporate structure. Integration can be a complex and time-consuming process, and if the integration is not fully successful or is delayed for a material period of time, we may not achieve the anticipated synergies or benefits of the acquisition. In addition, the integration of businesses may create complexity in our financial systems, internal controls, and operations and make them more difficult to manage. Furthermore, even if the target companies are successfully integrated, the acquisitions may fail to further our business strategy as anticipated, expose us to increased competition or challenges with respect to our products or services, and expose us to additional liabilities. Any failure in the execution of a strategic transaction, our approach to the integration of an acquired asset or business, or achieving expected synergies or other benefits could result in slower growth, higher than expected costs, the recording of an impairment of goodwill or other intangible assets, and other actions which could adversely affect our business, financial condition and results of operations.

Operational Risks

Our success depends upon our ability to attract, develop and retain highly qualified associates to provide excellent customer service and to support our strategic initiatives while also controlling our labor costs.

Our customers expect a high level of customer service and product knowledge from our associates. To meet the needs and expectations of our customers, we must attract, develop and retain a large number of highly qualified associates. Our ability to meet our labor needs while controlling labor costs is subject to numerous external factors, including market pressures with respect to prevailing wage rates, unemployment levels, and health and other insurance costs; the impact of legislation or regulations governing labor relations, immigration, minimum wage, and healthcare benefits; changing demographics; and our reputation within the labor market. We also compete with other retail businesses for many of our associates in hourly positions, and we invest significant resources in training and motivating them to maintain a high level of job satisfaction. These positions have historically had high turnover rates, which can lead to increased training and retention costs, particularly in a competitive labor market.

In addition, in order to continue to create the One Home Depot experience and build One Supply Chain, we must attract and retain a large number of skilled professionals, including technology professionals, to implement our ongoing technology and other strategic investments. The market for these professionals is increasingly competitive. An inability to provide wages and/or benefits that are competitive within the markets in which we operate could adversely affect our ability to retain and attract associates. Further, changes in market compensation rates may adversely affect our labor costs.

Additionally, our ability to successfully execute organizational changes, including management transitions within the Company's senior leadership, and to effectively motivate and retain associates are critical to our business success. If we are unable to locate, to attract or to retain qualified associates, or manage leadership transition successfully, the quality of service we provide to our customers may decrease and our financial performance may be adversely affected.

A failure of a key information technology system or process could adversely affect our business.

We rely extensively on information technology systems and related personnel to collect, analyze, process, store, manage and protect transactions and data. Some of these systems are managed or provided by third-party service providers, including certain cloud platform providers. In managing our business, we also rely heavily on the integrity of, security of, and consistent access to, this operational and financial data for information such as sales, customer data, associate data, demand forecasting, merchandise ordering, inventory replenishment, supply chain management, payment processing, order fulfillment, customer service, and post-purchase matters. For these information technology systems, applications, and processes to operate effectively, we or our service providers must maintain and update them. Delays in the maintenance, updates, upgrading, or patching of these systems, applications or processes could impair, and on occasion have impaired, their effectiveness or expose us to security risks. Our systems and the third-party systems with which we interact are subject to and on occasion have experienced damage or interruption from a number of causes, including power and other critical infrastructure outages; computer and telecommunications failures; computer viruses; security breaches; internal or external data theft or misuse; cyber-attacks, including the use of malicious codes, worms, phishing, spyware, denial of service attacks, and ransomware; responsive containment measures by us that may involve voluntarily taking systems off line; natural disasters and catastrophic events such as fires, floods, earthquakes, tornadoes, hurricanes, or other extreme weather events; public health concerns, such as pandemics and quarantines; acts of war, terrorism or civil unrest; other systems outages; inadequate or ineffective redundancy; and design or usage errors or malfeasance by our associates, contractors or third-party service providers. Although we and our third-party service providers seek to maintain our respective systems effectively and to successfully address the risk of compromise of the integrity, security and consistent operations of these systems, such efforts are not always successful. As a result, we or our service providers could experience errors, interruptions, delays or cessations of service in key portions of our information technology infrastructure, which could significantly disrupt our operations or impair data security, and be costly, time consuming and resource-intensive to remedy.

In addition, we are currently making, and expect to continue to make, substantial investments in our information technology systems, infrastructure and personnel, in certain cases with the assistance of strategic partners and other third-party service providers. These investments involve replacing existing systems, some of which are older, legacy systems that are less flexible and efficient, with successor systems; outsourcing certain technology to third-party service providers; making changes to existing systems, including the migration of applications to the cloud; maintaining or enhancing legacy systems that are not currently being replaced; or designing or cost-effectively acquiring new systems with new functionality. These efforts can result in significant potential risks, including failure of the systems to operate as designed, potential loss or corruption of data, changes in security processes and internal controls, cost overruns, implementation delays or errors, disruption of operations, and the potential inability to meet business and reporting requirements. Any system implementation and transition difficulty may result in operational challenges, security failures, reputational harm, and increased costs that could adversely affect our business operations and results of operations.

Disruptions in our customer-facing technology systems could impair our interconnected retail strategy and give rise to negative customer experiences.

Through our information technology systems, we are able to provide an improved overall shopping and interconnected experience that empowers our customers to shop and interact with us from a variety of electronic devices and digital platforms. We use our digital platforms both as sales channels for our products and services and also as methods of providing inspiration, as well as product, project, and other relevant information to our customers to drive sales. We also have multiple online communities and knowledge centers that allow us to inform, assist and interact with our customers. The retail industry is continually evolving and expanding, and we must effectively respond to new developments and changing customer preferences with respect to an interconnected experience. We continually seek to enhance all of our online and digital properties to provide an attractive, user-friendly interface for our customers. Disruptions, delays, failures or other performance issues with these customer-facing technology systems, or a failure of these systems to meet our or our customers' expectations, could impair the benefits that they provide to our business and negatively affect our relationship with our customers.

Disruptions in our supply chain and other factors affecting the distribution of our merchandise could adversely impact our business.

A disruption within our logistics or supply chain network could adversely affect our ability to deliver inventory in a timely manner, which could impair our ability to meet customer demand for products and result in lost sales, increased supply chain costs, or damage to our reputation. Such disruptions may result from damage or destruction to our distribution or fulfillment centers; weather-related events; natural disasters; international trade disputes or trade policy changes or restrictions; tariffs or import-related taxes; third-party strikes, lock-outs, work stoppages or slowdowns; shortages of supply chain labor, including truck drivers; shipping capacity constraints, including shortages of related equipment; third-party contract disputes; supply or shipping interruptions or costs; military conflicts; acts of terrorism; public health issues, including pandemics or quarantines (such as the COVID-19 pandemic) and related shut-downs, re-openings, or other actions by the government; civil unrest; or other factors beyond our control. In recent years, U.S. ports, particularly those located on the West coast, have been impacted by capacity constraints, port congestion and delays, periodic labor disputes, security issues, weather-related events, and natural disasters, which have been further exacerbated by the pandemic. Disruptions to our supply chain due to any of the factors listed above could negatively impact our financial performance or financial condition.

If our efforts to maintain the privacy and security of customer, associate, supplier and Company information are not successful, we could incur substantial costs and reputational damage and could become subject to litigation and enforcement actions.

Our business, like that of most retailers, involves the collection, storage, management, transmission and deletion of customers' personal information, preferences, and payment card information, as well as other confidential and sensitive information, such as personal information about our associates and our suppliers and confidential Company information. We also work with third-party vendors and service providers that provide technology, systems and services that we use in connection with the collection, storage and transmission of this information. Our information systems, and those of our third-party service providers, are vulnerable to an increasing threat of continually evolving data protection and cybersecurity risks. Unauthorized parties have in the past gained access, and will continue to attempt to gain access to, these systems and data through fraud or other means of deceiving our associates or third-party service providers. Hardware, software or applications we develop or obtain from third parties may contain defects in design, maintenance or manufacture or other problems that could unexpectedly compromise information security. We face the risk of exploitation of our software providers and our software development and implementation process, including from coding and process vulnerabilities and the installation of so-called back doors that provide unauthorized access to systems and data. The methods used to obtain unauthorized access, disable or degrade service, or sabotage systems are also constantly changing and evolving and may be difficult to anticipate or detect for long periods of time. We have implemented and regularly review and update our systems, processes, and procedures to protect against unauthorized access to or use of data and to prevent data loss. However, the ever-evolving threats mean we and our third-party service providers must continually evaluate and adapt our respective systems and processes and overall security environment, as well as those of any companies we acquire. There is no guarantee that these measures will be adequate to safeguard against all data security breaches, system compromises or misuses of data. As we have experienced, any significant compromise or breach of our data security, whether external or internal, or misuse of customer, associate, supplier or Company data, could result in significant costs, including costs to investigate and remediate, as well as lost sales, fines, lawsuits, and damage to our reputation. Furthermore, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may not immediately produce signs of a compromise, we may be unable to anticipate these techniques or to implement adequate preventative measures and we or our third-party service providers may not discover any security breach, vulnerability or compromise of information for a significant period of time after the security incident occurs.

In addition, data governance failures can adversely affect our reputation and business. Our business depends on our customers' willingness to entrust us with their personal information. Events that adversely affect that trust, including inadequate disclosure to our customers of our uses of their information or failing to keep our information technology systems and our customers' sensitive information secure from significant attack, theft, damage, loss or unauthorized disclosure or access, whether as a result of our action or inaction (including human error or malfeasance) or that of our service providers or other third parties, could adversely affect our brand and reputation. Further, the regulatory environment related to data privacy and cybersecurity is constantly changing, with new and increasingly rigorous requirements applicable to our business. The implementation of these requirements has also become more complex. Maintaining our compliance with those requirements, including recently enacted state consumer privacy laws, may require significant effort and cost, require changes to our business practices, and limit our ability to obtain data used to provide a personalized customer experience. In addition, failure to comply with applicable requirements could subject us to fines, sanctions, governmental investigations, lawsuits or reputational damage.

We are subject to payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability, and potentially disrupt our business.

We accept payments using a variety of methods, including credit and debit cards, our private label credit cards, cash, checks, PayPal, an installment loan program, trade credit, and gift cards, and we may offer new payment options over time. Acceptance of these payment options subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. These requirements may change over time or be reinterpreted, making compliance more difficult, costly, or uncertain. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could potentially disrupt our business. The payment methods that we offer also subject us to potential fraud and theft by threat actors, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in our payments and payment processing systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. As a result, our business and operating results could be adversely affected.

Our business is subject to seasonal influences, and uncharacteristic or significant weather conditions, alone or together with natural disasters, as well as other catastrophic events, could impact our operations.

Natural disasters, such as hurricanes and tropical storms, fires, floods, tornadoes, and earthquakes; unseasonable, or unexpected or extreme weather conditions; acts of terrorism or violence, including active shooter situations; public health concerns, such as pandemics and quarantines and related shut-downs, re-openings, or other actions by the government; civil unrest; or similar disruptions and catastrophic events can affect consumer spending and confidence and consumers' disposable income, particularly with respect to home improvement or construction projects, and could have an adverse effect on our financial performance. These types of events can also adversely affect our work force and prevent associates and customers from reaching our stores and other facilities. They can also, temporarily or on a long-term basis, disrupt or disable operations of stores, support centers, and portions of our supply chain and distribution network, including causing reductions in the availability of inventory and disruption of utility services. In addition, these events may affect our information systems and digital platforms, resulting in disruption to various aspects of our operations, including our ability to transact with customers and fulfill orders and to communicate with our stores. Unseasonable, unexpected or extreme weather conditions such as excessive precipitation, warm temperatures during the winter season, or prolonged or extreme periods of warm or cold temperatures, could render a portion of our inventory incompatible with customer needs. As a consequence of these or other catastrophic or uncharacteristic events, we may experience interruption to our operations, increased costs, or losses of property, equipment or inventory, which would adversely affect our revenue and profitability.

If we fail to identify and develop relationships with a sufficient number of qualified suppliers, or if our suppliers experience financial difficulties or other challenges, our ability to timely and efficiently access products that meet our high standards for quality could be adversely affected.

We buy our products from suppliers located throughout the world. Our ability to continue to identify and develop relationships with qualified suppliers who can satisfy our high standards for quality and responsible sourcing, as well as our need to access products in a timely and efficient manner, is a significant challenge. Our ability to access products from our suppliers can be adversely affected by political instability, civil unrest, military conflict, acts of terrorism or violence, public health issues (including pandemics and quarantines and related shut-downs, re-openings, or other actions by the government), the financial instability of suppliers, suppliers' noncompliance with applicable laws, trade restrictions, tariffs, currency exchange rates, any disruptions in our suppliers' logistics or supply chain networks or information technology systems, and other factors beyond our or our suppliers' control. If we are unable to access products to meet our customers' demands and expectations in a timely and efficient manner, our sales and gross margin results may be adversely impacted.

Failure to achieve and maintain a high level of product and service quality and safety could damage our image with customers, expose us to litigation, and negatively impact our sales and results of operations.

Product and service quality issues could negatively impact customer confidence in our brands and our Company. If our product and service offerings do not meet applicable safety standards or our customers' expectations regarding safety or quality, we could experience lost sales and increased costs and be exposed to legal, financial and reputational risks, as well as governmental enforcement actions. Actual, potential or perceived product safety concerns, including health-related concerns, could expose us to litigation, as well as government enforcement actions, and result in costly product recalls and other liabilities. We seek but may not be successful in obtaining contractual indemnification and insurance coverage from our suppliers and service providers. If we do not have adequate contractual indemnification or insurance available, such claims could have an adverse effect on our business, financial condition and results of operations. Even with adequate insurance and indemnification, our reputation as a provider of high-quality products and services, including both national brand names and our proprietary products, could suffer, damaging our reputation and impacting customer loyalty. In addition, we and our customers have expectations around responsible sourcing. All of our suppliers must comply with our responsible sourcing standards, which cover a variety of expectations across multiple areas of social compliance, including supply chain transparency, health and safety, environment, compensation, hours of work, and prohibitions on child and forced labor. We have a responsible sourcing audit process, but we are also dependent on our suppliers to ensure that the products and services we provide comply with our standards.

Our proprietary products subject us to certain increased risks, including regulatory, product liability, intellectual property, supplier relations, and reputational risks.

As we expand our proprietary product offerings, in addition to other product-related risks discussed in this section, we may become subject to increased risks due to our greater role in the design, manufacture, marketing and sale of those products. The risks include greater responsibility to administer and comply with applicable regulatory requirements, increased potential product liability and product recall exposure, and increased potential reputational risks related to the responsible sourcing of those products. To effectively execute on our product differentiation strategy, we must also be able to successfully protect our proprietary rights and successfully navigate and avoid claims related to the proprietary rights of third parties. In addition, an increase in sales of our proprietary products may adversely affect sales of our suppliers' products, which in turn could adversely affect our relationships with certain of our suppliers. Any failure to appropriately address some or all of these risks could damage our reputation and have an adverse effect on our business, results of operations, and financial condition.

If we are unable to effectively manage our installation services business, we could suffer lost sales and be subject to fines, lawsuits and reputational damage, or the loss of our general contractor licenses.

We act as a general contractor to provide installation services to our DIFM customers through professional third-party installers. As such, we are subject to regulatory requirements and risks applicable to general contractors, which include management of licensing, permitting, handling of environmental risks, and quality of work performed by our third-party installers. We have established processes and procedures to manage these requirements and ensure customer satisfaction with the services provided by our third-party installers. However, as we experienced with our recent EPA investigation and resulting consent decree, if we fail to manage these processes effectively, to perform regular job site inspections, or to provide proper oversight of these services, we could suffer lost sales, fines, lawsuits, or governmental enforcement actions for violations of regulatory requirements, as well as claims for property damage or personal injury. In addition, we may suffer damage to our reputation or the loss of our general contractor licenses, which could adversely affect our business.

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Legal, Financial, Regulatory, Global and Other External Risks

Uncertainty regarding the housing market, economic conditions, political and social climate, public health issues, and other factors beyond our control could adversely affect demand for our products and services, our costs of doing business, and our financial performance.

Our financial performance depends significantly on the stability of the housing and home improvement markets, as well as general economic conditions, including changes in gross domestic product. Adverse conditions in or uncertainty about these markets, the economy or the political or social climate could adversely impact our customers' confidence or financial condition, causing them to decide against purchasing home improvement products and services, causing them to delay purchasing decisions, or impacting their ability to pay for products and services. Other factors beyond our control – including unemployment and foreclosure rates; inventory loss due to theft; interest rate fluctuations; fuel and other energy costs; labor and healthcare costs; the availability of financing; the state of the credit markets, including mortgages, home equity loans and consumer credit; changes in tax rates and policy; weather; natural disasters; acts of terrorism or violence, including active shooter situations; public health issues, including pandemics and quarantines and related shut-downs, re-openings, or other actions by the government; civil unrest; and other conditions beyond our control – could further adversely affect demand for our products and services, our costs of doing business, and our financial performance. Further, our MRO customers, who have higher spend and longer-term relationships than a typical retail customer, primarily use trade credit to finance their purchases. As a result, their ability to pay is highly dependent on the economic strength of the industry in their area.

The continuing impacts of the COVID-19 pandemic are highly unpredictable, volatile, and uncertain, and could adversely affect our business operations, demand for our products and services, our costs of doing business, availability of labor, access to inventory, supply chain operations, our ability to predict future performance, our exposure to litigation, and our financial performance, among other things.

The COVID-19 pandemic has created significant public health concerns as well as economic disruption, uncertainty, and volatility, all of which have impacted and may continue to impact our business. While we have taken numerous steps to mitigate the impact of the pandemic on our results of operations, there can be no assurance that these efforts will be successful. Similarly, the recovery from the pandemic, including the widespread roll-out of vaccines, introduces additional uncertainty and volatility.

Due to numerous uncertainties and factors beyond our control, we are unable to predict the impact that the pandemic and the recovery will have going forward on our business, results of operations, cash flows, and financial condition. These factors and uncertainties include, but are not limited to:

- the severity and duration of the pandemic, including whether there are additional "waves" or other continued periods of increases or spikes in the number of COVID-19 cases (including those caused by current or future mutations or related strains of the virus) in future periods in areas in which we or our suppliers operate;
- the rapidly changing and fluid circumstances caused by the pandemic and efforts to recover from it and our ability to respond quickly enough or appropriately to those circumstances;
- the duration and degree of governmental, business or other actions in response to the pandemic, including but not limited to quarantine or shut-down measures and other governmental orders; restrictions on our operations up to and including complete or partial closure of our stores, facilities, and distribution and fulfillment centers; economic measures; access to unemployment compensation; fiscal policy changes; or additional measures that may yet be enacted;
- the health of, and effect of the pandemic on, our associates and our ability to maintain staffing needs to effectively operate our business, including the impact of and uncertainty related to vaccination efforts;
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates, and recessionary pressures;
- the impact of the pandemic and related economic uncertainty on consumer confidence, economic well-being, spending, and shopping behaviors, both during and after the pandemic;

- impacts – financial, operational or otherwise – on our supply chain, including manufacturers or suppliers of our products and logistics or transportation providers, and on our service providers or subcontractors;
- unknown consequences on our business performance and strategic initiatives stemming from the substantial investment of time and other resources to the pandemic response, including further delays in or adjustments to our strategic investments;

- the incremental costs of doing business during and/or after the pandemic;
- volatility in the credit and financial markets during and after the pandemic;
- the potential effects on our internal control environment and data security as a result of changes to a remote work environment;
- the impact of regulatory and judicial changes in liability for workers' compensation;
- potential increases in insurance premiums, medical claims costs, and workers' compensation claim costs;
- the availability of, and prevalence of access to, effective medical treatments and vaccines for COVID-19;
- the impact of litigation or claims from customers, associates, suppliers, regulators or other third parties relating to COVID-19 or our actions in response thereto;
- the pace of recovery when the pandemic subsides; and
- the long-term impact of the pandemic on our business.

In addition, we have seen an increase in spending on home improvement products and projects during the pandemic, as customers have focused on their homes and have spent less on other items like travel and entertainment. As the pandemic begins to subside, customers may shift their spending away from home improvement and back to other areas, which may have an adverse impact on our sales.

The above factors and uncertainties, or others of which we are not currently aware, may result in adverse impacts to our business, results of operations, cash flows, and financial condition. In addition to the factors above, the COVID-19 pandemic has subjected our business to a number of risks, including, but not limited to those discussed below:

Associate and Customer Safety-Related Risks. In response to the COVID-19 pandemic, we have taken a number of actions across our business to help protect our associates, customers, and others in the communities we serve. These measures include, among other things, adjusted store hours; increased cleaning and sanitizing measures; limits on customer traffic in stores to maintain physical and social distancing protocols; other physical and social distancing efforts such as markings on floors, signage, plexiglass shields and mask requirements; providing masks and thermometers to associates in stores and distribution and fulfillment centers; instituting curbside pickup from stores; and cancellation or modification of certain annual merchandising events to avoid driving additional traffic to stores that might undermine our efforts to prioritize safety. In certain jurisdictions, we temporarily ceased sales or delayed commencement of certain in-home services deemed non-essential early in the pandemic, and we may have to do so again or in other jurisdictions. Several of these actions adversely impacted our sales, and they may continue to do so going forward. We also took other steps to support our associates, including expanding our paid time off policy to help alleviate some of the challenges our associates are facing as a result of COVID-19; instituting weekly bonuses for hourly associates in our stores and distribution and fulfillment centers; temporarily providing double pay for overtime worked; and expanding dependent care benefits. In the third quarter of fiscal 2020, we began transitioning from these temporary pay and benefits programs to permanent compensation enhancements for our frontline, hourly associates. The actions that we have taken in response to the pandemic have resulted in significant incremental costs, and we expect that we will continue to incur additional costs due to the pandemic going forward, which in turn will have an adverse impact on our results of operations.

The health and safety of our associates and customers are of primary concern to our management team. However, due to the unpredictable nature of COVID-19 and the consequences of our actions, we may see unexpected outcomes from our added safety measures. For example, if we do not respond appropriately to the pandemic, or if our customers or associates do not participate in social distancing and other safety measures, the well-being of our associates and customers could be at risk. Furthermore, any failure to appropriately respond, or the perception of an inadequate response, could cause reputational harm to our brand and/or subject us to claims and litigation from associates, customers, suppliers, regulators or other third parties. Additionally, we have faced, and may continue to face, periodic labor shortages at our stores and facilities due to COVID-19, which can result in modifications to our operations including temporary closures and negatively impact our business, costs and results of operations.

Additionally, some jurisdictions have taken measures intended to expand the availability of workers' compensation or to change the presumptions applicable to workers compensation measures. These actions may increase our exposure to workers' compensation claims and increase our cost of insurance.

Information Technology-Related Risks. As a result of the pandemic and related quarantines, shut-down orders, and similar restrictions, we have experienced increased demand for online purchases of products. While we have managed this increased volume to date without interruption, there are no assurances that we will continue to be able to do so. We have also had to rapidly modify certain technology to support our interconnected offerings in connection with the pandemic, such as the addition of curbside pickup. Disruptions, failures or other performance issues with our customer-facing technology systems, either due to the increased volume, system modifications, or other factors, could impair the benefits they provide, adversely impact our sales, and negatively affect our relationship with our customers. In addition, as more business activities have shifted online due to COVID-19 restrictions, and as many of our store support associates are working remotely, we face an increased risk due to the potential failure of internal or external information technology infrastructure as well as increased cybersecurity threats and attempts to breach our security networks.

Supply Chain-Related Risks. Circumstances related to the COVID-19 pandemic have significantly impacted the global supply chain, with restrictions and limitations on business activities and impacts of the COVID-19 pandemic causing labor shortages, capacity constraints, disruptions and delays. These issues, which may expand depending on the progression of the pandemic, are placing strain on the domestic and international supply chain, which has affected and may continue to negatively affect the flow or availability of certain products. Customer demand for certain products has also fluctuated as the pandemic has progressed and customer behaviors have changed, which has challenged our ability to anticipate and/or adjust inventory levels to meet that demand. These factors have resulted in higher out-of-stock inventory positions in certain products as well as delays in delivering those products to our distribution and fulfillment centers, stores or customers. Even if we are able to find alternate sources for certain products, they may cost more or require us to incur higher transportation costs, which could adversely impact our profitability and financial condition. Similarly, increased demand for online purchases of products has impacted our fulfillment operations, as well as those of our third-party carriers, resulting in delays in delivering products to customers. The operation of our distribution and fulfillment centers is crucial to our business operations. We have experienced, and may continue to experience, labor shortages at and temporary closures of some of our distribution and fulfillment centers, and any such labor shortages or closures, whether temporary or sustained, may adversely impact the flow or availability of products to our stores and customers. Any of these circumstances could impair our ability to meet customer demand for products and result in lost sales, increased supply chain costs, or damage to our reputation.

Financial and Liquidity Risks. In an effort to strengthen our liquidity position while navigating the COVID-19 pandemic, we took proactive steps during the first quarter of fiscal 2020, including suspending share repurchases, expanding our commercial paper program and related revolving credit facility capacity, and issuing incremental long-term debt. The increased debt levels have increased our interest expense. Further, the financial and credit markets have experienced and may continue to experience significant volatility and turmoil. Our continued access to external sources of liquidity depends on multiple factors, including the condition of debt capital markets, our operating performance, and maintaining strong credit ratings. If the impacts of the pandemic and the related recovery continue to create severe disruptions or turmoil in the financial markets, or if rating agencies lower our credit ratings, it could adversely affect our ability to access the debt markets, our cost of funds, and other terms for new debt or other sources of external liquidity. Additionally, changes in our capital allocation strategy could have adverse impacts, both short- and long-term, on our results of operations and financial position. Suspension of share repurchases impacts our earnings per share and return on invested capital, which in turn could adversely impact our stock price. We resumed our share repurchases in the first quarter of fiscal 2021, although the amount and continuation of those repurchases will be influenced by the evolving economic and pandemic environment. While not contemplated at this time, any potential suspension or reduction in our dividend declaration could have an adverse impact on investor perception and our stock price.

To the extent the COVID-19 pandemic continues to adversely affect the U.S. and global economy and/or to adversely affect our business, results of operations, cash flows, or financial condition, it may also have the effect of heightening other risks described in this section and other SEC filings, including but not limited to those related to consumer behavior and expectations, competition, brand and reputation, implementation of strategic initiatives, cybersecurity threats, technology systems disruption, supply chain disruptions, labor availability and cost, litigation, and regulatory requirements.

Our costs of doing business could increase as a result of changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations.

We are subject to various federal, state and local laws and regulations that govern numerous aspects of our business. In recent years, a number of new laws and regulations have been adopted, there has been expanded enforcement of certain existing laws and regulations by federal, state and local agencies, and the interpretation of certain laws and regulations have become increasingly complex. These laws and regulations, and related interpretations and enforcement activity, may change as a result of a variety of factors, including political, economic or social events. Changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations governing minimum wage or living wage requirements; the classification of exempt and non-exempt employees; the distinction between employees and contractors; other wage, labor or workplace regulations; healthcare; data privacy and cybersecurity; the sale, marketing and pricing of some of our products; transportation, logistics and interstate delivery operations, including Department of Transportation regulations on vehicles and drivers; international trade; supply chain transparency; taxes, including changes to corporate tax rates; unclaimed property; energy costs and consumption; or hazardous waste disposal and other environmental matters, including with respect to our installation services business, could increase our costs of doing business or impact our operations.

In fiscal 2017, Congress enacted the Tax Act, which significantly changed how the U.S. taxes corporations. The Tax Act requires complex computations to be performed that were not previously required under U.S. tax law, significant judgments to be made in interpretation of the provisions of the Tax Act, significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. Since the enactment of the Tax Act, additional guidance has been issued by the U.S. Department of the Treasury, the IRS, and other standard-setting bodies, whose interpretations could differ from our interpretations. Further, in addition to uncertainties that continue to exist in terms of how U.S. states will react to the Tax Act, recently enacted changes in foreign countries within which we operate could have additional impacts on our effective tax rate.

If we cannot successfully manage the unique challenges presented by international markets, we may not be successful in our international operations and our sales and profitability may be negatively impacted.

Our ability to successfully conduct retail operations in, and source products and materials from, international markets is affected by many of the same risks we face in our U.S. operations, as well as unique costs and difficulties of managing international operations. Our international operations, including any expansion in international markets, may be adversely affected by local laws and customs, U.S. laws applicable to foreign operations and other foreign legal and regulatory constraints, as well as political, social and economic conditions. Risks inherent in international operations also include, among others, potential adverse tax consequences; international trade disputes, trade policy changes or potential tariffs and other import-related taxes and controls; greater difficulty in enforcing intellectual property rights; limitations on access to ports; risks associated with the Foreign Corrupt Practices Act and local anti-bribery law compliance; and challenges in our ability to identify and gain access to local suppliers. For example, trade tensions between the U.S. and China have led to a series of significant tariffs on the importation of certain product categories. As a portion of our retail products are sourced, directly or indirectly, outside of the U.S., major changes in tax or trade policies, tariffs or trade relations could adversely impact the cost of, demand for, and profitability of retail product sales in our U.S. locations. Other countries may also change their business and trade policies in anticipation of or in response to increased import tariffs and other changes in U.S. trade policy and regulations. In addition, our operations in international markets create risk due to foreign currency exchange rates and fluctuations in those rates, which may adversely impact our sales and profitability.

The inflation or deflation of commodity prices could affect our prices, demand for our products, our sales and our profit margins.

Prices of certain commodity products, including lumber and other raw materials, are historically volatile and are subject to fluctuations arising from changes in domestic and international supply and demand, labor costs, competition, market speculation, government regulations, tariffs and trade restrictions, and periodic delays in delivery. Rapid and significant changes in commodity prices, such as changes in lumber prices, may affect the demand for our products, our sales and our profit margins.

We may incur property, casualty or other losses not covered by our insurance.

We are predominantly self-insured for a number of different risk categories, such as general liability (including product liability), workers' compensation, employee group medical, automobile claims, and network security and privacy liability, with insurance coverage for certain catastrophic risks. The types and amounts of insurance may vary from time to time based on our decisions with respect to risk retention and regulatory requirements. The occurrence of significant claims, a substantial rise in costs to maintain our insurance, or the failure to maintain adequate insurance coverage could have an adverse impact on our financial condition and results of operations.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results or financial condition.

GAAP and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, such as asset impairment, inventories, lease obligations, self-insurance, vendor allowances, tax matters, business combinations, and litigation, are complex and involve many subjective assumptions, estimates and judgments. Changes in accounting standards or their interpretation or changes in underlying assumptions, estimates or judgments, including due to uncertainty in the current environment resulting from the COVID-19 pandemic, could significantly change our reported or expected financial performance or financial condition. The implementation of new accounting standards could also require certain systems, internal process, internal control, and other changes that could increase our operating costs.

We are involved in a number of legal, regulatory and governmental enforcement proceedings, and while we cannot predict the outcomes of those proceedings and other contingencies with certainty, some of these outcomes may adversely affect our operations or increase our costs.

We are involved in a number of legal proceedings and regulatory matters, including government inquiries and investigations, and consumer, employment, tort and other litigation that arise from time to time in the ordinary course of business. Litigation is inherently unpredictable, and the outcome of some of these proceedings and other contingencies could require us to take or refrain from taking actions which could adversely affect our operations or could result in excessive adverse verdicts or results. Additionally, involvement in these lawsuits, investigations and inquiries, and other proceedings, as well as compliance with any settlements or consent decrees that result from those proceedings, may involve significant expense, divert management's attention and resources from other matters, and impact the reputation of the Company.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The percentage of our owned versus leased facilities in operation at the end of fiscal 2020, along with the total square footage, follows:

square footage in millions	Owned	Leased	Total Square Footage
Stores [(1)]	90 %	10 %	238.6
Warehouses and distribution centers	5 %	95 %	75.9
Offices and other	23 %	77 %	5.1
Total			319.6

(1) Our owned stores include those subject to ground leases.

Our U.S. store locations at the end of fiscal 2020 follow:

U.S.	Stores	U.S.	Stores
Alabama	28	Montana	6
Alaska	7	Nebraska	8
Arizona	56	Nevada	21
Arkansas	14	New Hampshire	20
California	232	New Jersey	67
Colorado	46	New Mexico	13
Connecticut	30	New York	101
Delaware	9	North Carolina	40
District of Columbia	1	North Dakota	2
Florida	155	Ohio	70
Georgia	90	Oklahoma	16
Guam	1	Oregon	27
Hawaii	7	Pennsylvania	70
Idaho	11	Puerto Rico	10
Illinois	76	Rhode Island	8
Indiana	24	South Carolina	26
Iowa	10	South Dakota	1
Kansas	16	Tennessee	39
Kentucky	14	Texas	180
Louisiana	28	Utah	22
Maine	11	Vermont	3
Maryland	41	Virgin Islands	2
Massachusetts	45	Virginia	49
Michigan	70	Washington	45
Minnesota	33	West Virginia	6
Mississippi	14	Wisconsin	27
Missouri	34	Wyoming	5
		Total U.S.	1,987

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Our store locations outside of the U.S. at the end of fiscal 2020 follow:

Canada	Stores	Mexico	Stores
Alberta	27	Aguascalientes	2
British Columbia	26	Baja California	6
Manitoba	6	Baja California Sur	2
New Brunswick	3	Campeche	2
Newfoundland	1	Chiapas	2
Nova Scotia	4	Chihuahua	5
Ontario	88	Coahuila	5
Prince Edward Island	1	Colima	2
Quebec	22	Distrito Federal	10
Saskatchewan	4	Durango	1
Total Canada	182	Guanajuato	5
		Guerrero	2
		Hidalgo	1
		Jalisco	8
		Michoacán	4
		Morelos	3
		Nayarit	1
		Nuevo León	11
		Oaxaca	1
		Puebla	5
		Querétaro	4
		Quintana Roo	3
		San Luis Potosí	2
		Sinaloa	5
		Sonora	4
		State of Mexico	16
		Tabasco	1
		Tamaulipas	5
		Tlaxcala	1
		Veracruz	5
		Yucatán	2
		Zacatecas	1
		Total Mexico	127

Item 3. Legal Proceedings.

SEC regulations require us to disclose certain information about proceedings arising under federal, state or local environmental regulations if we reasonably believe that such proceedings may result in monetary sanctions above a stated threshold. Pursuant to SEC regulations, the Company uses a threshold of $1 million for purposes of determining whether disclosure of any such proceedings is required.

As previously reported, in January 2017, we became aware of an investigation by the criminal investigation division of the EPA into our compliance with lead-safe work practices for certain jobs performed through our installation services business. We have also previously responded to civil document requests from several EPA regions. In the second quarter of fiscal 2018, we received a subpoena for documents from the EPA civil enforcement division. In the second quarter of fiscal 2019, we received a grand jury subpoena from the U.S. Attorney for the Northern District of Georgia and an amendment of the subpoena from the EPA civil enforcement division. In December 2020, we entered into a civil consent decree with the U.S. Department of Justice, the EPA, and the States of Utah, Massachusetts and Rhode Island, which requires certain changes to lead-safe work practices in our installation services business and the payment of a penalty of $20.75 million, and filed the decree with the United States District Court for the Northern District of Georgia for approval. The consent decree resolves the allegations on a nationwide basis, and we anticipate court approval of the consent decree in the first half of fiscal 2021. In addition, as previously reported in the third quarter of fiscal 2020, we were informed by the United States Attorney for the Northern District of Georgia that the government is declining to pursue criminal charges related to the investigation of our lead-safe work practices.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Since April 19, 1984, our common stock has been listed on the NYSE, trading under the symbol "HD." We paid our first cash dividend on June 22, 1987 and have paid a cash dividend during each subsequent quarter. While we currently expect a cash dividend to be paid in the future, future dividend payments will depend on our earnings, capital requirements, financial condition, and other factors considered relevant by our Board of Directors.

At March 5, 2021, there were approximately 116,000 holders of record of our common stock and approximately 3,735,000 additional "street name" holders whose shares are held of record by banks, brokers, and other financial institutions.

Stock Performance Graph

The graph and table below present our cumulative total shareholder returns relative to the performance of the S&P Retail Composite Index and the S&P 500 Index for the five most recent fiscal years. The graph assumes $100 was invested at the closing price of our common stock on the NYSE and in each index on the last trading day of fiscal 2015 and assumes that all dividends were reinvested on the date paid. The points on the graph represent fiscal year-end amounts based on the last trading day in each fiscal year.

hd-20210131_g3.jpg

—●— The Home Depot —◆— S&P Retail Composite Index —■— S&P 500 Index

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	Fiscal Year Ended					
	January 31, 2016	January 29, 2017	January 28, 2018	February 3, 2019	February 2, 2020	January 31, 2021
The Home Depot	$ 100.00	$ 112.34	$ 172.17	$ 156.60	$ 199.00	$ 241.94
S&P Retail Composite Index	100.00	118.55	172.18	181.29	218.65	309.14
S&P 500 Index	100.00	120.86	154.33	148.35	180.31	211.39

Issuer Purchases of Equity Securities

The number and average price of shares purchased in each fiscal month of the fourth quarter of fiscal 2020 follow:

Period	Total Number of Shares Purchased(1) (3)	Average Price Paid Per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Program(2)	Dollar Value of Shares that May Yet Be Purchased Under the Program(2)
November 2, 2020 – November 29, 2020	2,278	$ 273.99	—	$ 7,680,368,043
November 30, 2020 – December 27, 2020	530	269.44	—	7,680,368,043
December 28, 2020 – January 31, 2021	1,148	269.81	—	7,680,368,043
Total	3,956	272.17	—	

(1) These amounts include repurchases pursuant to our Amended and Restated 2005 Omnibus Stock Incentive Plan and our 1997 Omnibus Stock Incentive Plan (collectively, the "Plans"). Under the Plans, participants may surrender shares as payment of applicable tax withholding on the vesting of restricted stock 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 February 2019, our Board of Directors authorized $15.0 billion in share repurchases that replaced the previous authorization. The authorization does not have a prescribed expiration date.

(3) On March 13, 2020, we suspended our share repurchases. We resumed share repurchases in the first quarter of fiscal 2021.

Sales of Unregistered Securities

During the fourth quarter of fiscal 2020, we issued 435 deferred stock units under the Home Depot, Inc. Nonemployee Directors' Deferred Stock Compensation Plan pursuant to the exemption from registration provided by Section 4(a)(2) of 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 fourth quarter of fiscal 2020. 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.

During the fourth quarter of fiscal 2020, we credited 11,539 deferred stock units to participant accounts under the 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 a termination of service as described in this plan.

Item 6. Selected Financial Data.

The information required by Item 301 of Regulation S-K is incorporated by reference to page F-1 of this report. Quarterly financial data previously required by item 302 of Regulation S-K has been omitted as we have elected to early adopt the changes to Item 302 contained in SEC Release No. 33-10890.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our MD&A includes the following sections:

Executive Summary

Highlights of our annual financial performance follow:

dollars in millions, except per share data		Fiscal 2020		Fiscal 2019		Fiscal 2018
Net sales	$	132,110	$	110,225	$	108,203
Net earnings		12,866		11,242		11,121
Diluted earnings per share	$	11.94	$	10.25	$	9.73
Net cash provided by operating activities	$	18,839	$	13,687	$	13,165
Payments for businesses acquired, net		7,780		—		21
Proceeds from long-term debt, net of discounts and premiums		7,933		3,420		3,466
Repayments of long-term debt		2,872		1,070		1,209
Repurchases of common stock		791		6,965		9,963

Note: Fiscal 2020 and fiscal 2019 include 52 weeks. Fiscal 2018 includes 53 weeks.

We reported net sales of $132.1 billion in fiscal 2020. Net earnings were $12.9 billion, or $11.94 per diluted share. We opened two new stores in Mexico and three new stores in the U.S. during fiscal 2020, for a total store count of 2,296 at January 31, 2021. At the end of fiscal 2020, a total of 309 of our stores, or 13.5%, were located in Canada and Mexico. Total sales per retail square foot were $543.74 in fiscal 2020. Our inventory turnover ratio was 5.8 times at the end of fiscal 2020, up from 4.9 times last year, driven by a significant increase in customer demand across core merchandising departments.

We generated $18.8 billion of cash flow from operations and issued $7.9 billion of long-term debt, net of discounts and premiums, during fiscal 2020. These funds, together with cash on hand, were used to acquire HD Supply for net consideration of $7.8 billion, pay $6.5 billion of dividends, repay an aggregate of $2.9 billion of long-term debt, fund $2.5 billion in capital expenditures, repay $974 million of net short-term borrowings, and fund cash payments of $791 million for share repurchases before we suspended share repurchases in March 2020. We resumed share repurchases in the first quarter of fiscal 2021. In February 2021, we announced a 10% increase in our quarterly cash dividend to $1.65 per share.

Our ROIC was 40.8% for fiscal 2020 and 45.4% for fiscal 2019. See the "Non-GAAP Financial Measures" section below for our definition and calculation of ROIC, as well as a reconciliation of NOPAT, a non-GAAP financial measure, to net earnings (the most comparable GAAP financial measure). The decrease in ROIC from fiscal 2019 primarily reflects our decision to temporarily enhance our liquidity position, including the suspension of share repurchases.

In December 2020, we completed the acquisition of HD Supply, a leading national distributor of MRO products in the multifamily and hospitality end markets. We believe the acquisition of HD Supply will help position the Company to accelerate sales growth by better serving both existing and new MRO customers. See Note 12 to our consolidated financial statements for further discussion of the HD Supply acquisition.

COVID-19

The outbreak of the COVID-19 coronavirus, which was declared a pandemic by the World Health Organization in March 2020, has led to adverse impacts on the U.S. and global economies and has impacted and continues to impact our supply chain, operations, and customer demand. Even though the Company has taken measures to adapt to operating in this challenging environment, the pandemic could further affect our operations and the operations of our suppliers and vendors as a result of additional shut-downs or other governmental orders; restrictions and limitations on travel, logistics and other business activities; potential product and labor shortages; limitations on store or facility operations up to and including closures; and other governmental, business or consumer actions. As circumstances have evolved, our focus has been and continues to be on two key priorities: the safety and well-being of our associates and customers, and providing our customers and communities with the products and services that they need.

As we adapted to operations in a COVID-19 environment during fiscal 2020, we took a number of actions to promote social and physical distancing. At the beginning of the pandemic, we implemented a change to store operating hours, and we took measures to limit the number of customers in stores, which included canceling or modifying certain annual merchandising events and rolling out curbside pickup at our stores. We also shifted store support operations to remote or virtual. As we have continued to adapt and refine our approach, we have adjusted our response to better manage growing demand in the stores, including adopting a more localized approach on customer limits and expanding store hours while still focusing on promoting a safe shopping environment. In addition, masks or facial coverings are required for all associates and customers in our U.S. stores and other facilities.

The impact of COVID-19 and the actions we have taken in response to it had varying effects on our results of operations throughout fiscal 2020. Overall, we saw a significant acceleration in sales with strong performance across our departments as customers have focused on home improvement projects and repairs. As our customers continued to seek alternative methods for obtaining the products they needed, online sales grew by approximately 86% in fiscal 2020.

The increase in customer demand for certain products together with the impact of COVID-19 on our supply chain has put pressure on our ability to maintain high in-stock levels, particularly for certain high demand products. We have been able to mitigate some of the impact, however, due to the benefits from our strategic investments and by working cross-functionally and partnering with our suppliers to make real-time adjustments to our product assortments, introducing alternative products, or reducing assortments to the most popular selections in certain product categories.

Given these ongoing demands and the complexity of the current environment, we have focused on taking care of our associates by investing in additional pay and benefits, including expanded paid time off for all hourly associates to use at their discretion and the implementation of a temporary weekly bonus program. To continue to support our associates, we have transitioned away from these temporary programs and have implemented permanent compensation enhancements for frontline, hourly associates beginning in the third quarter of fiscal 2020, totaling approximately $1 billion of expected incremental expense on an annualized basis. Collectively, the enhanced pay and benefits implemented in fiscal 2020 resulted in additional expense of approximately $2.0 billion in fiscal 2020.

Although we cannot estimate the future impact of COVID-19 or the recovery from the pandemic, we believe our existing liquidity will be sufficient to continue to run our business effectively. We also believe that the investments we have made in recent years in our stores, interconnected and digital assets, associates, supply chain, and merchandising organization have allowed us to quickly adapt to shifts in customer needs and behaviors and the fluid circumstances created by the pandemic. We continue to actively monitor our business and operations and may take further actions as may be required by federal, state or local authorities or that we determine are in the best interests of our associates, customers, suppliers, vendors and shareholders.

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Results of Operations and Non-GAAP Measures

The tables and discussion below should be read in conjunction with our consolidated financial statements and related notes included in this report. The following table displays the percentage relationship between net sales and major categories in our consolidated statements of earnings:

dollars in millions	Fiscal 2020 $	Fiscal 2020 % of Net Sales	Fiscal 2019 $	Fiscal 2019 % of Net Sales	Fiscal 2018 $	Fiscal 2018 % of Net Sales
Net sales	$ 132,110		$ 110,225		$ 108,203	
Gross profit	44,853	34.0 %	37,572	34.1 %	37,160	34.3 %
Operating expenses:						
Selling, general and administrative	24,447	18.5	19,740	17.9	19,513	18.0
Depreciation and amortization	2,128	1.6	1,989	1.8	1,870	1.7
Impairment loss	—	—	—	—	247	0.2
Total operating expenses	26,575	20.1	21,729	19.7	21,630	20.0
Operating income	18,278	13.8	15,843	14.4	15,530	14.4
Interest and other (income) expense:						
Interest and investment income	(47)	—	(73)	(0.1)	(93)	(0.1)
Interest expense	1,347	1.0	1,201	1.1	1,051	1.0
Other	—	—	—	—	16	—
Interest and other, net	1,300	1.0	1,128	1.0	974	0.9
Earnings before provision for income taxes	16,978	12.9	14,715	13.3	14,556	13.5
Provision for income taxes	4,112	3.1	3,473	3.2	3,435	3.2
Net earnings	$ 12,866	9.7 %	$ 11,242	10.2 %	$ 11,121	10.3 %

Note: Fiscal 2020 and fiscal 2019 include 52 weeks. Fiscal 2018 includes 53 weeks. Certain percentages may not sum to totals due to rounding.

Selected financial and sales data:	Fiscal 2020	Fiscal 2019	Fiscal 2018	% Change Fiscal 2020 vs. 2019	% Change Fiscal 2019 vs. 2018
Comparable sales (% change) (1) (6)	19.7 %	3.5 %	5.2 %	N/A	N/A
Comparable customer transactions (% change) (1) (2) (6)	8.6 %	1.1 %	1.0 %	N/A	N/A
Comparable average ticket (% change) (1) (2) (6)	10.5 %	2.5 %	4.2 %	N/A	N/A
Customer transactions (in millions) (2) (3) (6)	1,756.3	1,616.0	1,620.8	8.7 %	(0.3)%
Average ticket (2) (3) (4) (6)	$74.32	$67.30	$65.74	10.4 %	2.4 %
Sales per retail square foot (2) (3) (5) (6)	$543.74	$454.82	$446.86	19.6 %	1.8 %
Diluted earnings per share	$11.94	$10.25	$9.73	16.5 %	5.3 %

(1) *Fiscal 2019 compares the 52 week period in fiscal 2019 to weeks 2 through 53 in fiscal 2018. Fiscal 2018 calculations do not include results from the 53rd week of fiscal 2018 and compare weeks 1 through 52 in fiscal 2018 to the 52 week period in fiscal 2017.*

(2) *Does not include results for the legacy Interline Brands business, now operating as a part of The Home Depot Pro.*

(3) *The 53rd week of fiscal 2018 increased customer transactions by 24.5 million, added $0.01 to average ticket, and increased sales per retail square foot by $6.87.*

(4) Average ticket represents the average price paid per transaction and is used by management to monitor the performance of the Company, as it represents a primary driver in measuring sales performance.

(5) Sales per retail square foot represents sales divided by the retail store square footage. Sales per retail square foot is a measure of the efficiency of sales based on the total square footage of our stores and is used by management to monitor the performance of the Company as an indicator of the productivity of owned and leased square footage for retail operations.

(6) Does not include results for HD Supply, which was acquired in December 2020.

Fiscal 2020 Compared to Fiscal 2019

Sales. We assess our sales performance by evaluating both net sales and comparable sales.

Net Sales. Net sales for fiscal 2020 increased $21.9 billion, or 19.9%, to $132.1 billion. The increase in net sales for fiscal 2020 primarily reflected the impact of positive comparable sales driven by an increase in comparable customer transactions and comparable average ticket. Online sales, which consist of sales generated online through our websites for products picked up in our stores or delivered to customer locations, represented 14.4% of net sales and grew by approximately 86% during fiscal 2020. The increase in online sales in fiscal 2020 was driven in large part by the impact of COVID-19, with customers continuing to leverage our digital platforms for their shopping needs. A stronger U.S. dollar negatively impacted sales growth by $381 million in fiscal 2020.

Comparable Sales. Comparable sales is a measure that highlights the performance of our existing locations and websites by measuring the change in net sales for a period over the comparable prior-period of equivalent length. Comparable sales includes sales at all locations, physical and online, open greater than 52 weeks (including remodels and relocations) and excludes closed stores. Retail stores become comparable on the Monday following their 52nd week of operation. Acquisitions are included in comparable sales after they have been owned for more than 52 weeks. Comparable sales is intended only as supplemental information and is not a substitute for net sales presented in accordance with GAAP.

Total comparable sales increased 19.7% in fiscal 2020, reflecting a 10.5% increase in comparable average ticket and an 8.6% increase in comparable customer transactions. The increase in comparable sales reflected a number of factors, including increased consumer demand across our core categories and the execution of our strategic efforts to drive an enhanced interconnected experience in both the physical and digital worlds. The increase in comparable average ticket and comparable customer transactions was primarily driven by an increase in the number of products sold per transaction and stronger in-store and online customer engagement, as well as commodity price inflation primarily from lumber. During fiscal 2020, 11 of our 14 merchandising departments posted double-digit positive comparable sales, while Plumbing, Kitchen and Bath, and Flooring posted high single-digit positive comparable sales when compared to last year.

Gross Profit. Gross profit increased $7.3 billion, or 19.4%, to $44.9 billion in fiscal 2020. Gross profit as a percent of net sales, or gross profit margin, was 34.0% in fiscal 2020 compared to 34.1% in fiscal 2019, reflecting a change in product mix, higher shrink and increased supply chain expense, partially offset by the benefit from lower promotional activity in fiscal 2020 as we cancelled or modified certain annual merchandising events in response to COVID-19.

Operating Expenses. Our operating expenses are composed of SG&A and depreciation and amortization.

Selling, General & Administrative. SG&A increased $4.7 billion, or 23.8%, to $24.4 billion in fiscal 2020. As a percent of net sales, SG&A was 18.5% for fiscal 2020 compared to 17.9% for fiscal 2019.
The increase in SG&A as a percent of net sales for fiscal 2020 was primarily driven by an additional $2.0 billion of expense related to expanded associate pay and benefits, an additional $238 million of operational expense related to COVID-19, and additional expense related to our store success sharing program and store and field-based management bonuses, partially offset by leverage resulting from a positive comparable sales environment. SG&A in fiscal 2020 also includes transaction-related expenses of $110 million associated with the acquisition of HD Supply.

Depreciation and Amortization. Depreciation and amortization increased $139 million, or 7.0%, to $2.1 billion in fiscal 2020. As a percent of net sales, depreciation and amortization was 1.6% for fiscal 2020 compared to 1.8% in fiscal 2019. The decrease in depreciation and amortization as a percent of net sales primarily reflected leverage resulting from positive comparable sales and timing of asset additions, partially offset by strategic investments in the business.

Interest and Other, net. Interest and other, net, was $1.3 billion for fiscal 2020 compared to $1.1 billion for fiscal 2019. Interest and other, net, as a percent of net sales was 1.0% for both fiscal 2020 and fiscal 2019, and primarily reflected higher interest expense resulting from higher debt balances offset by leverage resulting from a positive comparable sales environment.

Provision for Income Taxes. Our combined effective income tax rate was 24.2% for fiscal 2020 compared to 23.6% for fiscal 2019. The provision for income taxes increased in fiscal 2020 primarily as a result of certain discrete tax benefits in fiscal 2019.

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Diluted Earnings per Share. Diluted earnings per share were $11.94 for fiscal 2020 compared to $10.25 for fiscal 2019. The increase in diluted earnings per share for fiscal 2020 reflected the impact of a positive comparable sales environment, partially offset by the additional expenses incurred in response to COVID-19, as well as the incremental expense associated with our store success sharing program and store and field-based management bonuses.

Fiscal 2019 Compared to Fiscal 2018

For a comparison of our results of operations for fiscal 2019 to fiscal 2018, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Form 10-K for the fiscal year ended February 2, 2020, filed with the SEC on March 25, 2020.

Non-GAAP Financial Measures

To provide clarity 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 ROIC is meaningful for investors and management because it measures how effectively we deploy our capital base. We define ROIC as NOPAT, a non-GAAP financial measure, for the most recent twelve-month period, divided by average debt and equity. We define average debt and equity as the average of beginning and ending long-term debt (including current installments) and equity for the most recent twelve-month period.

The calculation of ROIC, together with a reconciliation of NOPAT to net earnings (the most comparable GAAP measure), follows:

dollars in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Net earnings	$ 12,866	$ 11,242	$ 11,121
Interest and other, net	1,300	1,128	974
Provision for income taxes	4,112	3,473	3,435
Operating income	18,278	15,843	15,530
Income tax adjustment (1)	(4,423)	(3,739)	(3,665)
NOPAT	$ 13,855	$ 12,104	$ 11,865
Average debt and equity (2)	$ 33,964	$ 26,686	$ 26,492
ROIC	40.8 %	45.4 %	44.8 %

Note: Fiscal 2020 and fiscal 2019 include 52 weeks. Fiscal 2018 includes 53 weeks.

(1) *Income tax adjustment is defined as operating income multiplied by our effective tax rate for the trailing twelve months.*

(2) *The beginning balance of equity for fiscal 2019 was adjusted to reflect an immaterial opening balance sheet adjustment due to the adoption of Topic 842, Leases, in fiscal 2019. The beginning balance of equity for fiscal 2018 was adjusted to reflect an opening balance sheet adjustment of $75 million due to the adoption of Topic 606, Revenue from Contracts with Customers, in fiscal 2018.*

Liquidity and Capital Resources

Cash and Cash Equivalents at End of Year

At January 31, 2021, we had $7.9 billion in cash and cash equivalents, of which $1.3 billion was held by our foreign subsidiaries. We believe that our current cash position, access to the long-term debt capital markets, cash flow generated from operations, and funds available from our commercial paper programs, should be sufficient not only for our operating requirements but also to enable us to complete our capital expenditure programs, fund dividend payments, fund any share repurchases, and make any required long-term debt payments through the next several fiscal years. We also intend to maintain an elevated cash position during fiscal 2021 to further enhance our strong liquidity position. In addition, we believe we have the ability to obtain alternative sources of financing, if necessary.

During fiscal 2020, we chose to defer some of our in-store strategic investments to prioritize the safety of our associates and customers in response to COVID-19. We expect to complete these investments in fiscal 2021. For fiscal 2021, we will continue to follow our disciplined approach to capital allocation, and we currently estimate capital expenditures of approximately two percent of net sales on an annual basis. However, we may adjust our capital expenditures to support the operations of the business or in response to the economic environment, as necessary or appropriate.

Debt and Derivative Instruments

In March 2020, we expanded our commercial paper programs from $3.0 billion to $6.0 billion to further enhance our liquidity position in response to the pandemic. All of our short-term borrowings in fiscal 2020 and fiscal 2019 were under these commercial paper programs. In connection with these programs, we had back-up credit facilities with a consortium of banks for borrowings up to $6.5 billion, which consisted of (1) a five-year $2.0 billion credit facility, which is scheduled to expire in December 2023, (2) a 364-day $1.0 billion credit facility scheduled to expire December 2021, and (3) a 364-day $3.5 billion credit facility that we entered into in March 2020 that was scheduled to expire in March 2021. In December 2020, we completed the renewal of our 364-day $1.0 billion credit facility and extended our five-year $2.0 billion credit facility, which extended the maturities from December 2020 to December 2021 and from December 2022 to December 2023, respectively. On January 29, 2021, we terminated the 364-day $3.5 billion credit facility and at the same time reduced our commercial paper programs back to a maximum of $3.0 billion. At January 31, 2021, we were in compliance with all of the covenants contained in the two remaining credit facilities, none of which are expected to impact our liquidity or capital resources. At January 31, 2021, there were no borrowings outstanding under our commercial paper programs compared to $974 million outstanding at February 2, 2020. We may enter into additional credit facilities or other debt financing.

We issue senior notes from time to time as part of our capital management strategy. In March 2020 and January 2021, we issued $5.0 billion and $3.0 billion of senior notes, respectively. We also repaid an aggregate of $2.9 billion of long-term debt during fiscal 2020, and in March 2021, we also fully repaid our $1.35 billion 2.00% senior notes that had a maturity date of April 2021.

We use derivative and nonderivative instruments as part of our normal business operations in the management of our exposure to fluctuations in foreign currency exchange rates and interest rates on certain debt. See Note 4 to our consolidated financial statements for further discussion of our senior notes issuances, repayments and derivative instruments.

Leases

We use operating and finance leases to fund a portion of our real estate, including our stores, distribution centers, and store support centers. See Note 3 to our consolidated financial statements for further discussion of our operating and finance leases.

Share Repurchases

In February 2019, our Board of Directors authorized $15.0 billion in share repurchases, of which approximately $7.7 billion remained available at the end of fiscal 2020. During fiscal 2020, we had cash payments of $791 million for repurchases of our common stock through open market purchases. In March 2020, we suspended our share repurchases to ensure sufficient liquidity to meet the needs of the business during the pandemic. We resumed share repurchases in the first quarter of fiscal 2021, the amount and continuation of which will be influenced by the evolving economic and pandemic environment.

Cash Flows Summary

hd-20210131_g4.jpg

Operating Activities. Cash flow generated from operations provides us with a significant source of liquidity. Our operating cash flows result primarily from cash received from our customers, offset by cash payments we make for products and services, associate compensation, operations, and occupancy costs.

Cash provided by or used in operating activities is also subject to changes in working capital. Working capital at any specific point in time is subject to many variables, including seasonality, inventory management and category expansion, the timing of cash receipts and payments, vendor payment terms, and fluctuations in foreign exchange rates.

Net cash provided by operating activities increased by $5.2 billion in fiscal 2020 compared to fiscal 2019, primarily driven by an increase in net earnings and changes in working capital. Working capital was impacted by timing of vendor payments, along with higher merchandise inventories to continue to support increasing demand and replenish in-stock levels.

Investing Activities. Cash used in investing activities increased by $7.5 billion in fiscal 2020 compared to fiscal 2019, primarily due to $7.8 billion of net consideration paid to acquire HD Supply, partially offset by the deferral of certain capital expenditures in fiscal 2020 due to COVID-19. See Note 12 to our consolidated financial statements for further discussion of the HD Supply acquisition.

Financing Activities. Cash used in financing activities in fiscal 2020 primarily reflected $7.9 billion of net proceeds from long-term debt, offset by $6.5 billion of cash dividends paid, $2.9 billion of repayments of long-term debt, $974 million of net repayments of short-term debt, and $791 million for share repurchases prior to our suspension of share repurchases in March 2020.

Cash used in financing activities in fiscal 2019 primarily reflected $7.0 billion for share repurchases, $6.0 billion of cash dividends paid, and $1.4 billion of repayments of short- and long-term debt, offset by $3.4 billion of net proceeds from long-term debt.

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Contractual Obligations

Our significant contractual obligations at January 31, 2021 were as follows:

	Payments Due by Period				
in millions	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Long-term debt – principal payments (1)	$ 34,750	$ 1,350	$ 3,250	$ 2,100	$ 28,050
Long-term debt – interest payments (2)	20,581	1,162	2,210	2,114	15,095
Finance lease obligations (3)	3,693	272	565	590	2,266
Operating lease obligations (3)	7,122	955	1,814	1,352	3,001
Purchase obligations (4)	3,778	2,689	1,030	56	3
Unrecognized tax benefits (5)	7	7	—	—	—
Total	$ 69,931	$ 6,435	$ 8,869	$ 6,212	$ 48,415

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(1) Excludes finance lease obligations.

(2) Interest payments are calculated at current interest rates, including the impact of active interest rate swaps.

(3) Includes finance and operating lease imputed interest of $927 million and $938 million, respectively.

(4) Purchase obligations include all legally binding contracts such as firm commitments for inventory purchases, media and sponsorship spend, software acquisitions, license commitments, and legally binding service contracts.

(5) Excludes $533 million of noncurrent unrecognized tax benefits due to uncertainty regarding the timing of future cash tax payments.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

Critical Accounting Policies

Our significant accounting policies are disclosed in Note 1 to our consolidated financial statements. The following discussion addresses our most critical accounting policies, which are those that are both important to the representation of our financial condition and results of operations, and that require significant judgment or use of significant assumptions or complex estimates.

Merchandise Inventories

We value the majority of our inventory under the retail inventory method, using the first-in, first-out method, with the remainder of our inventories valued under a cost method. Under the retail inventory method, inventories are stated at cost, which is determined by applying a cost-to-retail ratio to the retail value of inventories.

The retail value of our inventory is adjusted as needed to reflect current market conditions. Because these adjustments are based on current prevailing market conditions, the value of our inventory approximates the lower of cost or market. The valuation under the retail inventory method is based on a number of factors such as markups, markdowns, and inventory losses (or shrink). As such, there exists an inherent uncertainty in the final determination of inventory cost and gross profit. We determine markups and markdowns based on the consideration of a variety of factors such as current and anticipated demand, customer preferences and buying trends, age of the merchandise, and weather conditions.

We calculate shrink based on actual inventory losses identified as a result of physical inventory counts during each fiscal period and estimated inventory losses between physical inventory counts. The estimate for shrink occurring in the interim period between physical inventory counts is calculated on a store-specific basis and is primarily based on recent shrink results. Due to changes in operating conditions during fiscal 2020 as a result of the COVID-19 pandemic, we used the results from a sample of stores that were able to conduct physical inventories as a basis for estimating shrink for those stores at which physical inventory counts were temporarily suspended during the year. We believe the sample of stores that were selected for inventory counts in the current year provides a reasonable basis for estimating shrink where a physical inventory count was not performed in fiscal 2020. Historically, the difference between estimated shrink and actual inventory losses has not been material to our annual financial results.

We do not believe there is a reasonable likelihood for a material change in the estimates or assumptions we use to value our inventory under the retail inventory method. We believe that the retail inventory method provides an inventory valuation which approximates cost and results in valuing our inventory at the lower of cost or market.

Impairment of Long-Lived Assets

We evaluate our long-lived assets each quarter for indicators of potential impairment. Indicators of impairment include current period losses combined with a history of losses, our decision to relocate or close a store or other location before the end of its previously estimated useful life, or when changes in other circumstances indicate the carrying amount of an asset may not be recoverable. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The assets of a store with indicators of impairment are evaluated for recoverability by comparing their undiscounted future cash flows with their carrying value. Our cash flow projections look several years into the future and include assumptions of variables such as future sales and operating margin growth rates, economic conditions, market competition, and inflation.

If the carrying value is greater than the undiscounted future cash flows, we then measure the asset's fair value to determine whether an impairment loss should be recognized. If the resulting fair value is less than the carrying value, an impairment loss is recognized. We generally base our estimates of fair market value on market appraisals of owned locations and estimates of the amount of potential sublease income and the time required to sublease for leased locations. Impairments of long-lived assets were not material to our consolidated financial statements in fiscal 2020, fiscal 2019 or fiscal 2018.

Uncertain Tax Positions

We are subject to income taxes in the United States and in multiple jurisdictions across our global operations. Thus, the determination of our provision for income taxes requires significant judgment, the use of estimates, and the interpretations and application of complex tax law. Our provision for income taxes could be affected by many factors, including changes in business operations, changes in tax law, outcomes of income tax audits, changes in our assessment of certain tax contingencies, the impact of discrete tax items, and the mix of earnings among our U.S. and foreign operations.

The calculation of our tax liabilities involves dealing with complexity and thus, there are many transactions and calculations for which the ultimate tax determination is uncertain. The assessment of uncertain tax positions requires the use of significant judgment in evaluating our tax positions and assessing the timing and amounts of deductible and taxable items. We record the benefits of uncertain tax positions in our financial statements only after determining a more likely than not probability that the uncertain tax positions will be sustained.

Business Combinations

We account for business combinations using the acquisition method of accounting, which requires that once control is obtained, all the assets acquired and liabilities assumed are recorded at their respective fair values at the date of acquisition. The determination of fair values of identifiable assets and liabilities requires estimates and the use of valuation techniques when market value is not readily available and requires a significant amount of management judgment. For the valuation of intangible assets acquired in a business combination, we typically use an income approach. Significant estimates in valuing certain intangible assets include, but are not limited to, the amount and timing of future cash flows, growth rates, customer attrition rates, discount rates and useful lives. The excess of the purchase price over fair values of identifiable assets acquired and liabilities assumed is recorded as goodwill. During the measurement period, which is up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Additional Information

For information on accounting pronouncements that have impacted or are expected to materially impact our financial condition, results of operations, or cash flows, see Note 1 to our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk. We have exposure to interest rate risk in connection with our long-term debt portfolio. We use interest rate swap agreements to manage our fixed/floating rate debt portfolio, none of which are for trading or speculative purposes. At January 31, 2021, after giving consideration to our interest rate swap agreements, floating rate debt principal was $4.7 billion, or approximately 13% of our long-term debt portfolio, and the fair values of our interest rate swap agreements totaled $101 million. A 1.0 percentage point change in the interest costs of floating-rate debt would not have a material impact on our financial condition or results of operations.

The United Kingdom’s Financial Conduct Authority has announced the phased cessation of publication of LIBOR beginning after 2021 and continuing through 2023. When LIBOR is discontinued, we may need to change the terms of certain of our floating rate notes, interest rate swap agreements, and credit instruments which utilize LIBOR as a benchmark in determining the interest rate, to replace LIBOR with the new standard that is established. As a result, we may incur incremental costs in transitioning to a new standard, and interest rates on our current or future indebtedness may be adversely affected by the new standard. Decisions have not been finalized regarding the replacement rates. As such, the potential effect of any such event on our cost of capital cannot yet be determined, but we do not expect it to have a material impact on our consolidated financial condition, results of operations, or cash flows.

Foreign Currency Exchange Rate Risk. We are 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. We use derivative and nonderivative instruments to hedge a portion of our foreign currency exchange rate risk, none of which are for trading or speculative purposes. Our foreign currency related derivative and nonderivative instruments outstanding at the end of fiscal 2020 were not material.

Commodity Price Risk. We experience inflation and deflation related to our purchase of certain commodity products. This price volatility could potentially have a material impact on our financial condition and/or our results of operations. In order to mitigate price volatility, we monitor commodity price fluctuations and may adjust our selling prices accordingly; however, our ability to recover higher costs through increased pricing may be limited by the competitive environment in which we operate. We currently do not use derivative instruments to manage these risks.

Item 8. Financial Statements and Supplementary Data.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
The Home Depot, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of The Home Depot, Inc. and subsidiaries (the Company) as of January 31, 2021 and February 2, 2020, the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the fiscal years in the three-year period ended January 31, 2021, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 31, 2021 and February 2, 2020, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended January 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 24, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company elected to change its method of accounting for Leases as of February 4, 2019 due to the adoption of Accounting Standards Update No. 2016-02, Leases (Topic 842), and related amendments.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Estimation of store shrink using a sampling approach

As discussed in Note 1 to the consolidated financial statements, the majority of the Company's U.S. merchandise inventory balances are stated at lower of cost (first-in, first out) or market as determined by the retail inventory method. The retail inventory method is based on a number of factors such as markups, markdowns, and inventory losses (or shrink). Shrink is the difference between the recorded amount of inventory and the physical inventory counted. The Company calculates shrink based on actual inventory losses identified as a result of physical inventory counts during each fiscal period and estimated inventory losses occurring between physical inventory counts. The estimate for shrink occurring in the interim period between physical inventory counts is calculated on a store-specific basis and is primarily based on recent shrink results. Due to changes in operating conditions during fiscal 2020 as a result of the COVID-19 pandemic, the Company used the results from a sample of stores that were able to conduct physical inventory counts as a basis for estimating shrink for those stores at which physical inventory counts were temporarily suspended during the year.

We identified the evaluation of the estimation of store shrink using a sampling approach as a critical audit matter. Evaluating the Company's use of sampling and its reliability to produce results substantially the same as those which would be obtained by a count of all U.S. retail stores involved a high degree of auditor judgment. Additionally, professionals with specialized skills and knowledge assisted the engagement team.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the process of developing and selecting the sampling model to estimate store shrink. We evaluated the appropriateness of the Company using sampling by comparing shrink results and store characteristics across the population to assess the sample's reliability to produce results substantially the same as those which would be obtained by a count of all U.S. retail stores. We involved sampling professionals with specialized skills and knowledge who assisted in:

- Evaluating the Company's design of a sampling method and key parameters used; and
- Testing the Company's application of a sampling model by evaluating formulas and calculations.

Fair value of customer relationships intangible asset

As discussed in Note 12 to the consolidated financial statements, on December 24, 2020, the Company acquired HD Supply Holdings, Inc. (HDS) in a business combination. As a result of the transaction, the Company acquired a customer relationships intangible asset associated with the generation of future income from existing customers. The preliminary, estimated acquisition-date fair value for the customer relationships intangible asset was approximately $2.6 billion. The Company used an income approach to determine the estimated fair value of the customer relationships intangible asset.

We identified the evaluation of the fair value of the customer relationships intangible asset acquired in the HDS business combination as a critical audit matter. There was a high degree of subjective auditor judgment related to certain assumptions used in the valuation model. Significant assumptions included the amount and timing of future cash flows, growth rates, customer attrition rate, and the discount rate applied. Changes in these assumptions could have a significant impact on the fair value of the customer relationships intangible asset. Professionals with specialized skill and knowledge were also required to assess significant assumptions and evaluate evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's acquisition-date valuation process, including controls related to the development of the above assumptions. We evaluated the amount and timing of future cash flows and growth rates used by the Company by comparing projected cash flows to certain publicly available information for comparable companies, industry reports, and historical revenues achieved. We performed sensitivity analyses over the Company's assumptions used to determine the preliminary, estimated fair value of the customer relationships intangible asset to assess the impact changes in those assumptions would have on the Company's determination of fair value. We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating:

- Long term growth rates used to project future cash flows by comparing to certain nationwide economic trend data such as GDP, inflation, and relevant industry data;
- Expected customer attrition rate applied by developing an independent attrition rate using historical sales data; and
- Discount rate applied by developing an independent discount rate and comparing inputs to certain publicly available market data for comparable entities.

/s/ KPMG LLP

We have served as the Company's auditor since 1979.

Atlanta, Georgia
March 24, 2021

THE HOME DEPOT, INC.
CONSOLIDATED BALANCE SHEETS

in millions, except per share data	January 31, 2021	February 2, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 7,895	$ 2,133
Receivables, net	2,992	2,106
Merchandise inventories	16,627	14,531
Other current assets	963	1,040
Total current assets	28,477	19,810
Net property and equipment	24,705	22,770
Operating lease right-of-use assets	5,962	5,595
Goodwill	7,126	2,254
Other assets	4,311	807
Total assets	$ 70,581	$ 51,236
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term debt	$ —	$ 974
Accounts payable	11,606	7,787
Accrued salaries and related expenses	2,463	1,494
Sales taxes payable	774	605
Deferred revenue	2,823	2,116
Income taxes payable	193	55
Current installments of long-term debt	1,416	1,839
Current operating lease liabilities	828	828
Other accrued expenses	3,063	2,677
Total current liabilities	23,166	18,375
Long-term debt, excluding current installments	35,822	28,670
Long-term operating lease liabilities	5,356	5,066
Deferred income taxes	1,131	706
Other long-term liabilities	1,807	1,535
Total liabilities	67,282	54,352
Common stock, par value $0.05; authorized: 10,000 shares; issued: 1,789 shares at January 31, 2021 and 1,786 shares at February 2, 2020; outstanding: 1,077 shares at January 31, 2021 and February 2, 2020	89	89
Paid-in capital	11,540	11,001
Retained earnings	58,134	51,729
Accumulated other comprehensive loss	(671)	(739)
Treasury stock, at cost, 712 shares at January 31, 2021 and 709 shares at February 2, 2020	(65,793)	(65,196)
Total stockholders' equity (deficit)	3,299	(3,116)
Total liabilities and stockholders' equity	$ 70,581	$ 51,236

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF EARNINGS

in millions, except per share data	Fiscal 2020	Fiscal 2019	Fiscal 2018
Net sales	$ 132,110	$ 110,225	$ 108,203
Cost of sales	87,257	72,653	71,043
Gross profit	44,853	37,572	37,160
Operating expenses:			
Selling, general and administrative	24,447	19,740	19,513
Depreciation and amortization	2,128	1,989	1,870
Impairment loss	—	—	247
Total operating expenses	26,575	21,729	21,630
Operating income	18,278	15,843	15,530
Interest and other (income) expense:			
Interest and investment income	(47)	(73)	(93)
Interest expense	1,347	1,201	1,051
Other	—	—	16
Interest and other, net	1,300	1,128	974
Earnings before provision for income taxes	16,978	14,715	14,556
Provision for income taxes	4,112	3,473	3,435
Net earnings	$ 12,866	$ 11,242	$ 11,121
Basic weighted average common shares	1,074	1,093	1,137
Basic earnings per share	$ 11.98	$ 10.29	$ 9.78
Diluted weighted average common shares	1,078	1,097	1,143
Diluted earnings per share	$ 11.94	$ 10.25	$ 9.73

Fiscal 2020 and fiscal 2019 include 52 weeks. Fiscal 2018 includes 53 weeks.

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Net earnings	$ 12,866	$ 11,242	$ 11,121
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	60	53	(267)
Cash flow hedges	8	8	53
Other	—	3	8
Total other comprehensive income (loss)	68	64	(206)
Comprehensive income	$ 12,934	$ 11,306	$ 10,915

Fiscal 2020 and fiscal 2019 include 52 weeks. Fiscal 2018 includes 53 weeks.

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Common Stock:			
Balance at beginning of year	$ 89	$ 89	$ 89
Shares issued under employee stock plans	—	—	—
Balance at end of year	89	89	89
Paid-in Capital:			
Balance at beginning of year	11,001	10,578	10,192
Shares issued under employee stock plans	229	172	104
Stock-based compensation expense	310	251	282
Balance at end of year	11,540	11,001	10,578
Retained Earnings:			
Balance at beginning of year	51,729	46,423	39,935
Cumulative effect of accounting changes	—	26	75
Net earnings	12,866	11,242	11,121
Cash dividends	(6,451)	(5,958)	(4,704)
Other	(10)	(4)	(4)
Balance at end of year	58,134	51,729	46,423
Accumulated Other Comprehensive Income (Loss):			
Balance at beginning of year	(739)	(772)	(566)
Cumulative effect of accounting changes	—	(31)	—
Foreign currency translation adjustments, net of tax	60	53	(267)
Cash flow hedges, net of tax	8	8	53
Other, net of tax	—	3	8
Balance at end of year	(671)	(739)	(772)
Treasury Stock:			
Balance at beginning of year	(65,196)	(58,196)	(48,196)
Repurchases of common stock	(597)	(7,000)	(10,000)
Balance at end of year	(65,793)	(65,196)	(58,196)
Total stockholders' equity (deficit)	$ 3,299	$ (3,116)	$ (1,878)

Fiscal 2020 and fiscal 2019 include 52 weeks. Fiscal 2018 includes 53 weeks.

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Cash Flows from Operating Activities:			
Net earnings	$ 12,866	$ 11,242	$ 11,121
Reconciliation of net earnings to net cash provided by operating activities:			
Depreciation and amortization	2,519	2,296	2,152
Stock-based compensation expense	310	251	282
Impairment loss	—	—	247
Changes in receivables, net	(465)	(170)	33
Changes in merchandise inventories	(1,657)	(593)	(1,244)
Changes in other current assets	43	(135)	(257)
Changes in accounts payable and accrued expenses	5,118	32	870
Changes in deferred revenue	702	334	80
Changes in income taxes payable	(149)	44	(42)
Changes in deferred income taxes	(569)	202	26
Other operating activities	121	184	(103)
Net cash provided by operating activities	18,839	13,687	13,165
Cash Flows from Investing Activities:			
Capital expenditures	(2,463)	(2,678)	(2,442)
Payments for businesses acquired, net	(7,780)	—	(21)
Other investing activities	73	25	47
Net cash used in investing activities	(10,170)	(2,653)	(2,416)
Cash Flows from Financing Activities:			
Repayments of short-term debt, net	(974)	(365)	(220)
Proceeds from long-term debt, net of discounts and premiums	7,933	3,420	3,466
Repayments of long-term debt	(2,872)	(1,070)	(1,209)
Repurchases of common stock	(791)	(6,965)	(9,963)
Proceeds from sales of common stock	326	280	236
Cash dividends	(6,451)	(5,958)	(4,704)
Other financing activities	(154)	(140)	(153)
Net cash used in financing activities	(2,983)	(10,798)	(12,547)
Change in cash and cash equivalents	5,686	236	(1,798)
Effect of exchange rate changes on cash and cash equivalents	76	119	(19)
Cash and cash equivalents at beginning of year	2,133	1,778	3,595
Cash and cash equivalents at end of year	$ 7,895	$ 2,133	$ 1,778
Supplemental Disclosures:			
Cash paid for income taxes	$ 4,654	$ 3,220	$ 3,774
Cash paid for interest, net of interest capitalized	1,241	1,112	1,035
Non-cash capital expenditures	274	136	248

Fiscal 2020 and fiscal 2019 include 52 weeks. Fiscal 2018 includes 53 weeks.

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

The Home Depot, Inc., together with its subsidiaries (the "Company," "Home Depot," "we," "our" or "us"), is a home improvement retailer that sells a wide assortment of building materials, home improvement products, lawn and garden products, décor items, and facilities maintenance, repair and operations products, and provides a number of services, in stores and online. We operate in the U.S. (including the Commonwealth of Puerto Rico and the territories of the U.S. Virgin Islands and Guam), Canada, and Mexico.

Consolidation and Presentation

Our consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. Intercompany transactions are eliminated in consolidation. Our fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31st. Fiscal 2020 and fiscal 2019 include 52 weeks while fiscal 2018 includes 53 weeks.

Impact of COVID-19

The outbreak of the COVID-19 coronavirus, which was declared a pandemic by the World Health Organization in March 2020, has led to adverse impacts on the U.S. and global economies and has impacted and continues to impact our supply chain, operations, and customer demand. Even though the Company has taken measures to adapt to operating in this challenging environment, the pandemic could further affect our operations and the operations of our suppliers and vendors as a result of additional shut-downs or other governmental orders; restrictions and limitations on travel, logistics and other business activities; potential product and labor shortages; limitations on store or facility operations up to and including closures; and other governmental, business or consumer actions.

In response to COVID-19, we expanded our associate pay and benefits to provide additional paid time off, weekly bonuses and other benefits. To continue to support our associates, we transitioned away from these temporary programs and implemented permanent compensation enhancements for frontline, hourly associates beginning in the third quarter of fiscal 2020. These expanded pay and benefits are included in SG&A in the consolidated statements of earnings.

Use of Estimates

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses in preparing these financial statements in conformity with GAAP. While we believe these estimates and assumptions are reasonable, actual results could differ from these estimates, including changes due to uncertainty in the current economic environment resulting from the COVID-19 pandemic.

Cash Equivalents

We consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Our cash equivalents are carried at fair market value and consist primarily of money market funds.

Receivables

The components of receivables, net, follow:

in millions	January 31, 2021		February 2, 2020	
Card receivables	$	992	$	778
Rebate receivables		987		668
Customer receivables		571		292
Other receivables		442		368
Receivables, net	$	2,992	$	2,106

Card receivables consist of payments due from financial institutions for the settlement of credit card and debit card transactions. Rebate receivables represent amounts due from vendors for volume and co-op advertising rebates. Customer receivables relate to credit extended directly to certain customers in the ordinary course of business. The valuation allowance related to these receivables was not material to our consolidated financial statements at the end of fiscal 2020 or fiscal 2019.

Merchandise Inventories

The majority of our merchandise inventories are stated at the lower of cost (first-in, first-out) or market, as determined by the retail inventory method, which is based on a number of factors such as markups, markdowns, and inventory losses (or shrink). As the inventory retail value is adjusted regularly to reflect market conditions, inventory valued using the retail method approximates the lower of cost or market. Certain subsidiaries, including retail operations in Canada and Mexico, and distribution centers, record merchandise inventories at the lower of cost or net realizable value, as determined by a cost method. These merchandise inventories represent approximately 36% of the total merchandise inventories balance. We evaluate the inventory valued using a cost method at the end of each quarter to ensure that it is carried at the lower of cost or net realizable value. The valuation allowance for merchandise inventories valued under a cost method was not material to our consolidated financial statements at the end of fiscal 2020 or fiscal 2019.

Physical inventory counts or cycle counts are taken on a regular basis in each store and distribution center to ensure that amounts reflected in merchandise inventories are properly stated. Shrink (or in the case of excess inventory, swell) is the difference between the recorded amount of inventory and the physical inventory count. We calculate shrink based on actual inventory losses identified as a result of physical inventory counts during each fiscal period and estimated inventory losses between physical inventory counts. The estimate for shrink occurring in the interim period between physical inventory counts is calculated on a store-specific basis and is primarily based on recent shrink results. Due to changes in operating conditions during fiscal 2020 as a result of the COVID-19 pandemic, we used the results from a sample of stores that were able to conduct physical inventories as a basis for estimating shrink for those stores at which physical inventory counts were temporarily suspended during the year. We believe the sample of stores that were selected for inventory counts in the current year provides a reasonable basis for estimating shrink where a physical inventory count was not performed in fiscal 2020. Historically, the difference between estimated shrink and actual inventory losses has not been material to our annual financial results.

Property and Equipment

Buildings, furniture, fixtures, and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized using the straight-line method over the original term of the lease or the useful life of the improvement, whichever is shorter.

The estimated useful lives of our property and equipment follow:

	Life
Buildings	5 – 45 years
Furniture, fixtures and equipment	2 – 20 years
Leasehold improvements	5 – 45 years

We capitalize certain costs, including interest, related to construction in progress and the acquisition and development of software. Costs associated with the acquisition and development of software are amortized using the straight-line method over the estimated useful life of the software, which is three to six years. Certain development costs not meeting the criteria for capitalization are expensed as incurred.

We evaluate our long-lived assets each quarter for indicators of potential impairment. Indicators of impairment include current period losses combined with a history of losses, our decision to relocate or close a store or other location before the end of its previously estimated useful life, or when changes in other circumstances indicate the carrying amount of an asset may not be recoverable. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The assets of a store with indicators of impairment are evaluated for recoverability by comparing its undiscounted future cash flows with its carrying value. If the carrying value is greater than the undiscounted future cash flows, we then measure the asset's fair value to determine whether an impairment loss should be recognized. If the resulting fair value is less than the carrying value, an impairment loss is recognized for the difference between the carrying value and the estimated fair value. Impairment losses on property and equipment are recorded as a component of SG&A. Impairment charges for long-lived assets were not material to our consolidated financial statements in fiscal 2020, fiscal 2019, or fiscal 2018.

Leases

On February 4, 2019, we adopted the new leases standard using the modified retrospective transition method.

We enter into contractual arrangements for the utilization of certain non-owned assets which are evaluated as finance or operating leases upon commencement, and are accounted for accordingly. Specifically, a contract is or contains a lease when (1) the contract contains an explicitly or implicitly identified asset and (2) we obtain substantially all of the economic benefits from the use of that underlying asset and direct how and for what purpose the asset is used during the term of the contract in exchange for consideration. We assess whether an arrangement is or contains a lease at inception of the contract.

We lease certain retail locations, warehouse and distribution space, office space, equipment, and vehicles. A substantial majority of our leases have remaining lease terms of one to 20 years, typically with the option to extend the leases for five-year terms. Some of our leases may include the option to terminate in less than five years. The lease term used to calculate the right-of-use asset and lease liability at commencement includes the impacts of options to extend or terminate the lease when it is reasonably certain that we will exercise that option. When determining whether it is reasonably certain that we will exercise an option at commencement, we consider various existing economic factors, including market conditions, real estate strategies, the nature, length, and terms of the agreement, as well as the uncertainty of the condition of leased equipment at the end of the lease term. Based on these determinations, we generally conclude that the exercise of renewal options would not be reasonably certain in determining the lease term at commencement.

The discount rate used to calculate the present value of lease payments is the rate implicit in the lease, when readily determinable. As the rate implicit in the lease is rarely readily determinable, we use a secured incremental borrowing rate, which is updated on a quarterly basis, as the discount rate for the present value of lease payments.

Real estate taxes, insurance, maintenance, and operating expenses applicable to the leased property are generally our obligations under our lease agreements. In instances where these payments are fixed, they are included in the measurement of our lease liabilities, and when variable, are excluded and recognized in the period in which the obligation for those payments is incurred. Certain of our lease agreements also include rental payments based on an index or rate and others include rental payments based on a percentage of sales. For variable payments dependent upon an index or rate, we apply the active index or rate as of the lease commencement date. Variable lease payments not based on an index or rate are not included in the measurement of our lease liabilities as they cannot be reasonably estimated, and are recognized in the period in which the obligation for those payments is incurred.

Leases that have a term of twelve months or less upon commencement are considered short-term in nature. Accordingly, short-term leases are not included on the consolidated balance sheets and are expensed on a straight-line basis over the lease term. We have also elected to not separate lease and non-lease components for certain classes of assets including real estate and certain equipment.

Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Business Combinations

The assets and liabilities of acquired businesses are recorded at their fair values at the date of acquisition. The excess of the purchase price over the fair values of the identifiable assets acquired and liabilities assumed is recorded as goodwill. During the measurement period, which is up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Goodwill

Goodwill represents the excess of purchase price over the fair value of net assets acquired. We do not amortize goodwill, but assess the recoverability of goodwill in the third quarter of each fiscal year, or more often if indicators warrant, by determining whether the fair value of each reporting unit supports its carrying value. Each fiscal year, we may assess qualitative factors to determine whether it is more likely than not that the fair value of each reporting unit is less than its carrying amount as a basis for determining whether it is necessary to complete quantitative impairment assessments, with a quantitative assessment completed at least once every three years. We completed our last quantitative assessment in fiscal 2019 and concluded that the fair value of our reporting units substantially exceeded their respective carrying values, including goodwill.

During the third quarter of fiscal 2020, we completed our annual assessment of the recoverability of goodwill for our U.S., Canada, and Mexico reporting units based on qualitative factors. As part of this analysis, we assessed the current environment to determine if there were any indicators of impairment as a result of the operating conditions resulting from COVID-19 or otherwise and concluded that while there have been events and circumstances in the macro-environment that have impacted us, we have not experienced any entity-specific indicators of impairment of goodwill or other indefinite-lived intangibles that would require us to perform a quantitative impairment assessment. There were no impairment charges related to goodwill for fiscal 2020, fiscal 2019, or fiscal 2018.

Changes in the carrying amount of our goodwill follow:

in millions		Fiscal 2020		Fiscal 2019
Goodwill, balance at beginning of year	$	2,254	$	2,252
Acquisitions [(1)]		4,870		—
Other [(2)]		2		2
Goodwill, balance at end of year	$	7,126	$	2,254

———

(1) Fiscal 2020 includes the preliminary determination of goodwill related to the acquisition of HD Supply. See Note 12 for details regarding the HD Supply acquisition.

(2) Primarily reflects the impact of foreign currency translation.

Other Intangible Assets

We amortize the cost of definite-lived intangible assets over their estimated useful lives, which range up to 20 years. Intangible assets with indefinite lives are tested in the third quarter of each fiscal year for impairment, or more often if indicators warrant. Intangible assets other than goodwill are included in other assets on the consolidated balance sheets.

The gross carrying amount and accumulated amortization relating to intangible assets are as follows:

	January 31, 2021			
in millions		Gross Carrying Amount		Accumulated Amortization
Definite-Lived Intangible Assets:				
Customer relationships	$	2,965	$	(157)
Trade names		151		(1)
Other		16		(11)
Indefinite-Lived Intangible Assets:				
Trade names		649		
Total Intangible Assets	$	3,781	$	(169)

The gross carrying amounts are primarily driven by the preliminary allocation of fair value to indefinite and definite-lived intangible assets recognized as part of the HD Supply acquisition as further discussed in Note 12. Our definite-lived and indefinite-lived intangible assets were not material at the end of fiscal 2019, and intangible asset amortization expense was immaterial in fiscal 2020, fiscal 2019 and fiscal 2018.

As of January 31, 2021, estimated future amortization expense related to definite-lived intangible assets, including definite-lived intangible assets recognized as part of the HD Supply acquisition based on the preliminary allocation of fair value, was as follows:

in millions		
Fiscal 2021	$	176
Fiscal 2022		176
Fiscal 2023		174
Fiscal 2024		174
Fiscal 2025		174
Thereafter		2,089
Total	$	2,963

There were no impairment losses related to intangible assets for fiscal 2020 or fiscal 2019. In fiscal 2018, we recognized a pre-tax impairment loss of $247 million for certain trade names.

Debt

We record any premiums or discounts associated with an issuance of long-term debt as a direct addition or deduction to the carrying value of the related senior notes. We also record debt issuance costs associated with an issuance of long-term debt as a direct deduction to the carrying value of the related senior notes. Premium, discount, and debt issuance costs are amortized over the term of the respective notes using the effective interest rate method.

Derivative Instruments and Hedging Activities

We use derivative instruments in the management of our interest rate exposure on long-term debt and our exposure to foreign currency fluctuations. We enter into derivative instruments for risk management purposes only; we do not enter into derivative instruments for trading or speculative purposes. All derivative instruments are recognized at their fair values in either assets or liabilities at the balance sheet date and are classified as either current or non-current based on each contract's respective maturity. While we enter into master netting arrangements, our policy is to present the fair value of derivative instruments gross in our consolidated balance sheets.

Changes in the fair values for derivative instruments designated as cash flow or net investment hedges are recognized in accumulated other comprehensive income (loss) until the hedged item is recognized in earnings, which for net investment hedges is upon sale or substantial liquidation of the underlying net investment. Changes in fair value of outstanding fair value hedges and the offsetting changes in fair values of the hedged item are recognized in earnings. We record realized gains and losses from derivative instruments in the same financial statement line item as the hedged item.

Derivative instruments that are not designated as hedges are recorded at fair value with unrealized gains or losses reported in earnings each period in the same financial statement line item as the hedged item. Cash flows from the settlement of derivative instruments appear in the consolidated statements of cash flows in the same categories as the cash flows of the hedged item.

Insurance

We are self-insured for certain losses related to general liability (including product liability), workers' compensation, employee group medical, and automobile claims. We recognize the expected ultimate cost for claims incurred (undiscounted) at the balance sheet date as a liability. The expected ultimate cost for claims incurred is estimated based upon analysis of historical data and actuarial estimates.

Our self-insurance liabilities, which are included in accrued salaries and related expenses, other accrued expenses and other long-term liabilities in the consolidated balance sheets, were $1.3 billion at January 31, 2021 and February 2, 2020.

We also maintain network security and privacy liability insurance coverage to limit our exposure to losses such as those that may be caused by a significant compromise or breach of our data security. Insurance-related expenses are included in SG&A.

Treasury Stock

Treasury stock is reflected as a reduction of stockholders' equity at cost. We use the weighted-average purchase cost to determine the cost of treasury stock that is reissued, if any.

Net Sales

We recognize revenue, net of expected returns and sales tax, at the time the customer takes possession of merchandise or when a service is performed. Our liability for sales returns is estimated based on historical return levels and our expectation of future returns, and is recognized at the transaction price. We also recognize a return asset, and corresponding adjustment to cost of sales, for our right to recover the goods returned by the customer, measured at the former carrying amount of the goods, less any expected recovery cost. At each financial reporting date, we assess our estimates of expected returns, refund liabilities, and return assets. Adjustments related to changes in return estimates were immaterial in all periods presented.

Net sales include services revenue generated through a variety of installation, home maintenance, and professional service programs. In these programs, the customer selects and purchases material for a project, and we provide or arrange for professional installation. These programs are offered through our stores, online, and in-home sales programs. Under certain programs, when we provide or arrange for the installation of a project and the subcontractor provides material as part of the installation, both the material and labor are included in services revenue. We recognize this revenue when the service for the customer is complete, which is not materially different from recognizing the revenue over the service period as the substantial majority of our services are completed within one week.

For product and services sold in stores or online, payment is typically due at the point of sale. When we receive payment from customers before the customer has taken possession of the merchandise or the service has been performed, the amount received is recorded as deferred revenue until the sale or service is complete. Such performance obligations are part of contracts with expected original durations of three months or less. As of January 31, 2021 and February 2, 2020, deferred revenue for products and services was $1.9 billion and $1.3 billion, respectively.

We further record deferred revenue for the sale of gift cards and recognize the associated revenue upon the redemption of those gift cards in net sales, which generally occurs within six months of gift card issuance. As of January 31, 2021 and February 2, 2020, our performance obligations for unredeemed gift cards were $839 million and $721 million, respectively. Gift card breakage income, which is our estimate of the portion of our gift card balance not expected to be redeemed, is recognized in net sales and was immaterial in fiscal 2020, fiscal 2019 and fiscal 2018.

We also have agreements with third-party service providers who directly extend credit to customers, manage our PLCC program, and own the related receivables. We have evaluated the third-party entities holding the receivables under the program and concluded that they should not be consolidated. The agreement with the primary third-party service provider for our PLCC program expires in 2028, with us having the option, but no obligation, to purchase the existing receivables at the end of the agreement. Deferred interest charges incurred for our deferred financing programs offered to these customers, interchange fees charged to us for their use of the cards, and any profit sharing with the third-party service providers are included in net sales.

Cost of Sales

Cost of sales includes the actual cost of merchandise sold and services performed; the cost of transportation of merchandise from vendors to our distribution network, stores, or customers; shipping and handling costs from our stores or distribution network to customers; and the operating cost and depreciation of our sourcing and distribution network and online fulfillment centers.

Vendor Allowances

Vendor allowances primarily consist of volume rebates that are earned as a result of attaining certain purchase levels and co-op advertising allowances for the promotion of vendors' products that are typically based on guaranteed minimum amounts with additional amounts being earned for attaining certain purchase levels. These vendor allowances are accrued as earned, with those allowances received as a result of attaining certain purchase levels accrued over the incentive period based on estimates of purchases. Volume rebates and certain co-op advertising allowances reduce the carrying cost of inventory and are recognized in cost of sales when the related inventory is sold.

Certain other co-op advertising allowances that are reimbursements of specific, incremental, and identifiable costs incurred to promote vendors' products are recorded as an offset against advertising expense in SG&A. The co-op advertising allowances recorded as an offset to advertising expense follow:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Specific, incremental, and identifiable co-op advertising allowances	$ 291	$ 282	$ 235

Advertising Expense

Television and radio advertising production costs, along with media placement costs, are expensed when the advertisement first appears. Certain co-op advertising allowances are recorded as an offset against advertising expense. Gross advertising expense included in SG&A follows:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Gross advertising expense	$ 1,200	$ 1,186	$ 1,156

Stock-Based Compensation

We are currently authorized to issue incentive and nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, and deferred shares to certain of our associates and non-employee directors under certain stock incentive plans. We measure and recognize compensation expense for all share-based payment awards made to associates and non-employee directors based on estimated fair values. The value of the portion of the award that is ultimately expected to vest is recognized as stock-based compensation expense, on a straight-line basis, over the requisite service period or as restrictions lapse. Additional information on our stock-based payment awards is included in Note 8.

Income Taxes

Income taxes are accounted for under the asset and liability method. We provide for federal, state, and foreign income taxes currently payable, as well as for those deferred due to timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates is recognized as income or expense in the period that includes the enactment date. We routinely evaluate the likelihood of realizing the benefit of our deferred tax assets and may record a valuation allowance if, based on all available evidence, we determine that some portion of the tax benefit will not be realized.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

We file a consolidated U.S. federal income tax return which includes certain eligible subsidiaries. Non-U.S. subsidiaries and certain U.S. subsidiaries, which are consolidated for financial reporting purposes, are not eligible to be included in our consolidated U.S. federal income tax return. Separate provisions for income taxes have been determined for these entities. For unremitted earnings of our non-U.S. subsidiaries, we are required to make an assertion regarding reinvestment or repatriation for tax purposes. For any earnings that we do not make a permanent reinvestment assertion, we recognize a provision for deferred income taxes. For earnings where we have made a permanent reinvestment assertion, no provision is recognized. See Note 5 for further discussion.

We recognize interest and penalties related to income tax matters in interest expense and SG&A, respectively, on our consolidated statements of earnings. Accrued interest and penalties related to income tax matters are recognized in other accrued expenses and other long-term liabilities on our consolidated balance sheets.

We are subject to global intangible low-taxed income (“GILTI”), an incremental tax on foreign income. We have made an accounting election to record this tax in the period the tax arises.

Comprehensive Income

Comprehensive income includes net earnings adjusted for certain gains and losses that are excluded from net earnings under GAAP, which consist primarily of foreign currency translation adjustments.

Foreign Currency Translation

Assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange on the last day of the reporting period. Revenues and expenses are translated using average exchange rates for the period and equity transactions are translated using the actual rate on the day of the transaction.

Reclassifications

Effective February 3, 2020, we reclassified cash flows relating to book overdrafts from financing to operating activities for all periods presented in the consolidated statements of cash flows. The amounts of these reclassifications were not material.

Recently Adopted Accounting Pronouncements

ASU No. 2018-15. In August 2018, the FASB issued ASU No. 2018-15, “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract,” which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. On February 3, 2020, we adopted ASU No. 2018-15 with no material impact to our consolidated financial condition, results of operations or cash flows.

ASU No. 2017-04. In January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which simplifies how an entity is required to test goodwill for impairment. The amendments in ASU No. 2017-04 require goodwill impairment to be measured using the difference between the carrying amount and the fair value of the reporting unit and require the loss recognized to not exceed the total amount of goodwill allocated to that reporting unit. On February 3, 2020, we adopted ASU No. 2017-04 with no impact to our consolidated financial condition, results of operations or cash flows.

ASU No. 2016-13. In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which introduced an expected credit loss model for the impairment of financial assets measured at amortized cost. The model replaces the probable, incurred loss model for those assets and broadens the information an entity must consider in developing its expected credit loss estimate for assets measured at amortized cost. On February 3, 2020, we adopted ASU No. 2016-13 with no material impact to our consolidated financial condition, results of operations or cash flows.

Recently Issued Accounting Pronouncements

ASU 2020-04. In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting," which provides practical expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The expedients and exceptions provided by the amendments in this update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued as a result of reference rate reform. These amendments are not applicable to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. In January 2021, the FASB issued ASU No. 2021-01, "Reference Rate Reform (Topic 848): Scope," which clarified the scope and application of the original guidance. ASU No. 2020-04 and ASU No. 2021-01 are effective as of March 12, 2020 through December 31, 2022 and may be applied to contract modifications and hedging relationships from the beginning of an interim period that includes or is subsequent to March 12, 2020. We are evaluating the impact these standards will have on our consolidated financial statements and related disclosures and do not anticipate a material impact.

ASU No. 2019-12. In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," as part of its overall simplification initiative to reduce costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. Amendments include removal of certain exceptions to the general principles of Topic 740, "Income Taxes," and simplification in several other areas. ASU No. 2019-12 is effective for annual reporting periods beginning after December 15, 2020, and interim periods therein. We are evaluating the impact the standard will have on our consolidated financial statements and related disclosures and do not anticipate a material impact.

Recent accounting pronouncements pending adoption not discussed above are either not applicable or are not expected to have a material impact on our consolidated financial condition, results of operations, or cash flows.

2. NET SALES AND SEGMENT REPORTING

We currently conduct our retail operations in the U.S., Canada, and Mexico, each of which represents one of our three operating segments. Our operating segments reflect the way in which internally-reported financial information is used to make decisions and allocate resources. For disclosure purposes, we aggregate these three operating segments into one reportable segment due to their similar operating and financial characteristics and how the business is managed.

Net property and equipment, classified by geography, follows:

in millions	January 31, 2021	February 2, 2020	February 3, 2019
Net property and equipment – in the U.S.	$ 22,205	$ 20,302	$ 19,930
Net property and equipment – outside the U.S.	2,500	2,468	2,445
Net property and equipment	$ 24,705	$ 22,770	$ 22,375

No sales to an individual customer accounted for more than 10% of revenue during any of the last three fiscal years. Net sales, classified by geography, follow:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Net sales – in the U.S.	$ 122,158	$ 101,333	$ 99,386
Net sales – outside the U.S.	9,952	8,892	8,817
Net sales	$ 132,110	$ 110,225	$ 108,203

Net sales by products and services follow:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Net sales – products	$ 127,671	$ 105,194	$ 102,933
Net sales – services	4,439	5,031	5,270
Net sales	$ 132,110	$ 110,225	$ 108,203

Major product lines and the related merchandising departments (and related services) follow:

Major Product Line	**Merchandising Departments**
Building Materials	Building Materials, Electrical/Lighting, Lumber, Millwork, and Plumbing
Décor	Appliances, Décor/Storage, Flooring, Kitchen and Bath, and Paint
Hardlines	Hardware, Indoor Garden, Outdoor Garden, and Tools

Net sales by major product lines (and related services) follow:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Building Materials	$ 46,536	$ 39,338	$ 39,883
Décor	43,409	37,390	36,273
Hardlines	42,165	33,497	32,047
Net sales	$ 132,110	$ 110,225	$ 108,203

Net sales by merchandising department (and related services) follow:

dollars in millions	Fiscal 2020 Net Sales	Fiscal 2020 % of Net Sales	Fiscal 2019 Net Sales	Fiscal 2019 % of Net Sales	Fiscal 2018 Net Sales	Fiscal 2018 % of Net Sales
Appliances	$ 11,860	9.0 %	$ 9,852	8.9 %	$ 9,027	8.3 %
Building Materials	8,682	6.6	7,712	7.0	7,770	7.2
Décor/Storage	4,872	3.7	3,758	3.4	3,583	3.3
Electrical/Lighting	11,173	8.5	9,844	8.9	9,941	9.2
Flooring	8,155	6.2	7,443	6.8	7,494	6.9
Hardware	7,656	5.8	6,381	5.8	6,203	5.7
Indoor Garden	14,296	10.8	10,989	10.0	10,450	9.7
Kitchen and Bath	8,465	6.4	7,717	7.0	7,728	7.1
Lumber	11,310	8.6	7,894	7.2	8,393	7.8
Millwork	6,460	4.9	5,757	5.2	5,757	5.3
Outdoor Garden	9,600	7.3	7,564	6.9	7,259	6.7
Paint	10,057	7.6	8,620	7.8	8,441	7.8
Plumbing	8,911	6.7	8,131	7.4	8,022	7.4
Tools	10,613	8.0	8,563	7.8	8,135	7.5
Total	$ 132,110	100.0 %	$ 110,225	100.0 %	$ 108,203	100.0 %

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

3. PROPERTY AND LEASES

Net Property and Equipment

The components of net property and equipment follow:

in millions	January 31, 2021	February 2, 2020
Land	$ 8,543	$ 8,390
Buildings	18,838	18,432
Furniture, fixtures, and equipment	15,119	13,666
Leasehold improvements	1,925	1,789
Construction in progress	1,068	1,005
Finance leases	3,308	1,578
Property and equipment, at cost	48,801	44,860
Less accumulated depreciation and finance lease amortization	24,096	22,090
Net property and equipment	$ 24,705	$ 22,770

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Depreciation and finance lease amortization expense, including depreciation and finance lease amortization expense included in cost of sales, follows:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Depreciation and finance lease amortization expense	$ 2,425	$ 2,223	$ 2,076

Leases

The consolidated balance sheet location of assets and liabilities related to operating and finance leases follow:

in millions	Consolidated Balance Sheet Caption	January 31, 2021	February 2, 2020
Assets:			
Operating lease assets	Operating lease right-of-use assets	$ 5,962	$ 5,595
Finance lease assets [1]	Net property and equipment	2,493	934
Total lease assets		$ 8,455	$ 6,529
Liabilities:			
Current:			
Operating lease liabilities	Current operating lease liabilities	$ 828	$ 828
Finance lease liabilities	Current installments of long-term debt	66	84
Long-term:			
Operating lease liabilities	Long-term operating lease liabilities	5,356	5,066
Finance lease liabilities	Long-term debt, excluding current installments	2,700	1,081
Total lease liabilities		$ 8,950	$ 7,059

(1) *Finance lease assets are recorded net of accumulated amortization of $815 million and $644 million as of January 31, 2021 and February 2, 2020, respectively.*

The components of lease cost follow:

in millions	Consolidated Statement of Earnings Caption[1]	Fiscal 2020	Fiscal 2019
Operating lease cost	Selling, general and administrative	$ 782	$ 827
Finance lease cost:			
Amortization of leased assets	Depreciation and amortization	167	86
Interest on lease liabilities	Interest expense	112	92
Short-term lease cost	Selling, general and administrative	75	98
Variable lease cost	Selling, general and administrative	277	241
Sublease income	Selling, general and administrative	(13)	(14)
Net lease cost		$ 1,400	$ 1,330

(1) *Costs associated with our sourcing and distribution network and online fulfillment centers are recorded in cost of sales, with the exception of interest on finance lease liabilities.*

Rent expense related to operating leases for fiscal 2018 totaled $1.1 billion.

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Weighted average remaining lease terms and discount rates follow:

	January 31, 2021	February 2, 2020
Weighted Average Remaining Lease Term (Years):		
Operating leases	10	10
Finance leases	15	12
Weighted Average Discount Rate:		
Operating leases	2.9 %	3.1 %
Finance leases	5.6 %	10.4 %

The approximate future minimum lease payments under operating and finance leases at January 31, 2021 follow:

in millions	Operating Leases	Finance Leases
Fiscal 2021	$ 955	$ 272
Fiscal 2022	960	285
Fiscal 2023	854	280
Fiscal 2024	738	273
Fiscal 2025	614	317
Thereafter	3,001	2,266
Total lease payments	7,122	3,693
Less: imputed interest	938	927
Present value of lease liabilities	$ 6,184	$ 2,766

Note: We have excluded approximately $833 million of leases (undiscounted basis) that have not yet commenced. These leases will commence primarily between fiscal 2021 and 2023 with lease terms of up to 20 years.

Supplemental cash flow information related to leases follows:

in millions	Fiscal 2020	Fiscal 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows – operating leases	$ 1,022	$ 1,003
Operating cash flows – finance leases	112	92
Financing cash flows – finance leases	122	70
Supplemental non-cash information:		
Lease assets obtained in exchange for new operating lease liabilities	969	748
Lease assets obtained in exchange for new finance lease liabilities	1,730	186

4. DEBT AND DERIVATIVE INSTRUMENTS

Short-Term Debt

In March 2020, we expanded our commercial paper programs from $3.0 billion to $6.0 billion to further enhance our liquidity position in response to the pandemic. All of our short-term borrowings in fiscal 2020 and fiscal 2019 were under these commercial paper programs. In connection with these programs, we had back-up credit facilities with a consortium of banks for borrowings up to $6.5 billion, which consisted of (1) a five-year $2.0 billion credit facility scheduled to expire in December 2023, (2) a 364-day $1.0 billion credit facility scheduled to expire in December 2021, and (3) a 364-day $3.5 billion credit facility that we entered into in March 2020 that was scheduled to expire in March 2021. In December 2020, we completed the renewal of our 364-day $1.0 billion credit facility and extended our five-year $2.0 billion credit facility, which extended the maturities from December 2020 to December 2021 and from December 2022 to December 2023, respectively. On January 29, 2021, we terminated the 364-day $3.5 billion credit facility and at the same time reduced our commercial paper programs back to a maximum of $3.0 billion. At

January 31, 2021, there were no outstanding borrowings under our commercial paper programs compared to $974 million outstanding at February 2, 2020.

Certain information on our commercial paper programs follow:

dollars in millions	January 31, 2021	February 2, 2020
Weighted average interest rate	— %	1.56 %
Balance outstanding at fiscal year-end	$ —	$ 974
Maximum amount outstanding at any month-end	$ 11	$ 2,097
Average daily short-term borrowings	$ 11	$ 624

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Long-Term Debt

Details of the components of our long-term debt follow:

in millions	Interest Payable	Principal Amount	Carrying Amount January 31, 2021	Carrying Amount February 2, 2020
Floating rate senior notes due June 2020	Quarterly	$ —	$ —	$ 500
1.80% Senior notes due June 2020	Semi-annually	—	—	750
3.95% Senior notes due September 2020	Semi-annually	—	—	506
4.40% Senior notes due April 2021	Semi-annually	—	—	999
2.00% Senior notes due April 2021	Semi-annually	1,350	1,350	1,348
Floating rate senior notes due March 2022	Quarterly	300	300	299
3.25% Senior notes due March 2022	Semi-annually	700	699	698
2.625% Senior notes due June 2022	Semi-annually	1,250	1,248	1,246
2.70% Senior notes due April 2023	Semi-annually	1,000	998	998
3.75% Senior notes due February 2024	Semi-annually	1,100	1,096	1,095
3.35% Senior notes due September 2025	Semi-annually	1,000	997	996
3.00% Senior notes due April 2026	Semi-annually	1,300	1,291	1,290
2.125% Senior notes due September 2026	Semi-annually	1,000	990	989
2.50% Senior notes due April 2027	Semi-annually	750	743	—
2.80% Senior notes due September 2027	Semi-annually	1,000	1,017	1,007
0.90% Senior notes due March 2028	Semi-annually	500	494	—
3.90% Senior notes due December 2028	Semi-annually	1,000	1,075	1,059
2.95% Senior notes due June 2029	Semi-annually	1,750	1,828	1,797
2.70% Senior notes due April 2030	Semi-annually	1,500	1,464	—
1.375% Senior notes due March 2031	Semi-annually	1,250	1,229	—
5.875% Senior notes due December 2036	Semi-annually	3,000	2,935	2,953
3.30% Senior notes due April 2040	Semi-annually	1,250	1,207	—
5.40% Senior notes due September 2040	Semi-annually	500	496	495
5.95% Senior notes due April 2041	Semi-annually	1,000	990	989
4.20% Senior notes due April 2043	Semi-annually	1,000	989	989
4.875% Senior notes due February 2044	Semi-annually	1,000	980	979
4.40% Senior notes due March 2045	Semi-annually	1,000	979	978
4.25% Senior notes due April 2046	Semi-annually	1,600	1,585	1,585
3.90% Senior notes due June 2047	Semi-annually	1,150	1,144	1,144
4.50% Senior notes due December 2048	Semi-annually	1,500	1,463	1,462
3.125% Senior notes due December 2049	Semi-annually	1,250	1,222	1,221
3.35% Senior notes due April 2050	Semi-annually	1,500	1,470	—
2.375% Senior notes due March 2051	Semi-annually	1,250	1,220	—
3.50% Senior notes due September 2056	Semi-annually	1,000	973	972
Total senior notes		$ 34,750	34,472	29,344
Finance lease obligations; payable in varying installments through January 31, 2055			2,766	1,165
Total long-term debt			37,238	30,509
Less current installments of long-term debt			1,416	1,839
Long-term debt, excluding current installments			$ 35,822	$ 28,670

January 2021 Issuance. In January 2021, we issued three tranches of senior notes.

- The first tranche consisted of $500 million of 0.90% senior notes due March 15, 2028 (the "2028 notes") at a discount of $3 million. Interest on the 2028 notes is due semi-annually on March 15 and September 15 of each year, beginning September 15, 2021.
- The second tranche consisted of $1.25 billion of 1.375% senior notes due March 15, 2031 (the "2031 notes") at a discount of $7 million. Interest on the 2031 notes is due semi-annually on March 15 and September 15 of each year, beginning September 15, 2021.
- The third tranche consisted of $1.25 billion of 2.375% senior notes due March 15, 2051 (the "2051 notes") at a discount of $17 million (together with the 2028 notes and the 2031 notes, the "January 2021 issuance"). Interest on the 2051 notes is due semi-annually on March 15 and September 15 of each year, beginning September 15, 2021.
- Issuance costs for the January 2021 issuance totaled $21 million. The net proceeds of the January 2021 issuance were used to replace a portion of the cash on hand used to finance the acquisition of HD Supply. Remaining proceeds will be used for general corporate purposes.

March 2020 Issuance. In March 2020, we issued four tranches of senior notes.

- The first tranche consisted of $750 million of 2.50% senior notes due April 15, 2027 (the "2027 notes") at a discount of $4 million. Interest on the 2027 notes is due semi-annually on April 15 and October 15 of each year, beginning October 15, 2020.
- The second tranche consisted of $1.5 billion of 2.70% senior notes due April 15, 2030 (the "2030 notes") at a discount of $8 million. Interest on the 2030 notes is due semi-annually on April 15 and October 15 of each year, beginning October 15, 2020.
- The third tranche consisted of $1.25 billion of 3.30% senior notes due April 15, 2040 (the "2040 notes") at a discount of $11 million. Interest on the 2040 notes is due semi-annually on April 15 and October 15 of each year, beginning October 15, 2020.
- The fourth tranche consisted of $1.5 billion of 3.35% senior notes due April 15, 2050 (the "2050 notes") at a discount of $17 million (together with the 2027 notes, the 2030 notes and the 2040 notes, the "March 2020 issuance"). Interest on the 2050 notes is due semi-annually on April 15 and October 15 of each year, beginning October 15, 2020.
- Issuance costs for the March 2020 issuance totaled $36 million. The net proceeds of the March 2020 issuance were used for general corporate purposes, which included the repayment of outstanding senior notes that matured in June 2020 and the early repayment of outstanding senior notes that had a maturity date in September 2020.

Redemption. All of our senior notes, other than our outstanding floating rate notes, may be redeemed by us at any time, in whole or in part, at the redemption price plus accrued interest up to the redemption date. With respect to the 3.25% 2022 notes and the 5.875% 2036 notes, 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 on the notes to be redeemed that would be due after the related redemption date. With respect to all other notes, 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 us to redeem those notes at 101% of the aggregate principal amount of the notes plus accrued interest up to the redemption date.

In addition to the repayments of the outstanding senior notes discussed above, in January 2021, we fully repaid our $1.0 billion 4.40% senior notes that had a maturity date of April 2021. In March 2021, we also fully repaid our $1.35 billion 2.00% senior notes that had a maturity date of April 2021. The early redemption of each of these notes occurred at or after their respective Par Call Date.

We are generally not limited under the indentures governing the notes in our 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 our liquidity or capital resources.

Maturities of Long-Term Debt. Our long-term debt maturities, excluding finance leases, follow:

in millions	Principal
Fiscal 2021	$ 1,350
Fiscal 2022	2,250
Fiscal 2023	1,000
Fiscal 2024	1,100
Fiscal 2025	1,000
Thereafter	28,050
Total	$ 34,750

Derivative Instruments and Hedging Activities

We use derivative and nonderivative instruments as part of our normal business operations in the management of our exposure to fluctuations in foreign currency exchange rates and interest rates on certain debt. Our objective in managing these exposures is to decrease the volatility of cash flows affected by changes in the underlying rates and minimize the risk of changes in the fair value of our senior notes.

We had outstanding interest rate swap agreements with combined notional amounts of $4.4 billion at January 31, 2021 and $2.1 billion at February 2, 2020. These agreements were accounted for as fair value hedges that swap fixed for variable rate interest to hedge changes in the fair values of certain senior notes. At January 31, 2021, the fair values of these agreements totaled $101 million, with $172 million recognized in other assets and $71 million recognized in other long-term liabilities on the consolidated balance sheet. At February 2, 2020, the fair values of these agreements totaled $120 million, all of which was recognized within other assets on the consolidated balance sheet. The changes in the fair values of these agreements offset the changes in the fair value of the hedged long-term debt.

We also settled forward-starting interest rate swap agreements in prior years, which were used to hedge the variability in future interest payments attributable to changing interest rates on forecasted debt issuances. Unamortized losses on these forward-starting swaps, which were designated as cash flow hedges, are being amortized to interest expense over the life of the respective notes. Losses recognized on these swaps within interest expense were immaterial in fiscal 2020, fiscal 2019 and fiscal 2018.

During fiscal 2019, we also settled our outstanding cross currency swap agreements accounted for as cash flow hedges, which hedged foreign currency fluctuations on certain intercompany debt, resulting in a gain of $118 million.

At January 31, 2021 and February 2, 2020, we had outstanding foreign currency forward contracts accounted for as cash flow hedges, which hedge the variability of forecasted cash flows associated with certain payments made in our foreign operations. At January 31, 2021 and February 2, 2020, the notional amounts and the fair values of these contracts were not material.

We had outstanding foreign currency forward contracts accounted for as net investment hedges, with a combined notional amount of $141 million at January 31, 2021 and $1.2 billion at February 2, 2020. These agreements hedge against foreign currency exposure on our net investment in certain subsidiaries. At January 31, 2021 and February 2, 2020, the fair values of these contracts were not material.

In addition to our forward contracts, we also hedge a portion of our foreign currency risk by designating nonderivative foreign-currency-denominated intercompany debt as hedges of our net investment in certain of our foreign operations. As of January 31, 2021 and February 2, 2020, the notional value of our nonderivative hedges and related foreign currency translation adjustments recorded in accumulated other comprehensive income (loss) were immaterial.

We expect an immaterial amount recorded in accumulated other comprehensive income (loss) as of January 31, 2021 to be reclassified into earnings within the next 12 months.

We generally enter into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with the same counterparty. To further limit our credit risk, we enter into collateral security arrangements that provide for collateral to be received or posted when the net fair value of certain derivative instruments exceeds or falls below contractually established thresholds. As of January 31, 2021, the cash collateral received by the Company related to derivative instruments under our collateral security arrangements was $103 million, which was recorded in other accrued expenses in the consolidated balance sheet. We did not receive any

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cash collateral as of February 2, 2020 or have material cash collateral posted with counterparties as of January 31, 2021 or February 2, 2020.

5. INCOME TAXES

Provision for Income Taxes

Our earnings before the provision for income taxes follow:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
United States	$ 16,013	$ 13,770	$ 13,456
Foreign	965	945	1,100
Total	$ 16,978	$ 14,715	$ 14,556

Our provision for income taxes follows:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Current:			
Federal	$ 3,462	$ 2,370	$ 2,495
State	928	572	544
Foreign	329	340	372
Total current	4,719	3,282	3,411
Deferred:			
Federal	(404)	259	67
State	(209)	(72)	1
Foreign	6	4	(44)
Total deferred	(607)	191	24
Provision for income taxes	$ 4,112	$ 3,473	$ 3,435

Our combined federal, state, and foreign effective tax rates follow:

	Fiscal 2020	Fiscal 2019	Fiscal 2018
Combined federal, state, and foreign effective tax rates	24.2 %	23.6 %	23.6 %

The reconciliation of our provision for income taxes at the federal statutory rate of 21% to the actual tax expense follows:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Income taxes at federal statutory rate	$ 3,565	$ 3,090	$ 3,057
State income taxes, net of federal income tax benefit	568	395	443
Tax on mandatory deemed repatriation	—	—	(62)
Other, net	(21)	(12)	(3)
Total	$ 4,112	$ 3,473	$ 3,435

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Deferred Taxes

The tax effects of temporary differences that give rise to significant portions of our deferred tax assets and deferred tax liabilities follow:

in millions	January 31, 2021	February 2, 2020
Assets:		
Deferred compensation	$ 472	$ 169
Accrued self-insurance liabilities	291	285
State income taxes	117	100
Merchandise inventories	41	—
Non-deductible reserves	199	156
Net operating losses	144	70
Lease liabilities	1,605	1,536
Other	155	135
Total deferred tax assets	3,024	2,451
Valuation allowance	(8)	—
Total deferred tax assets, net of valuation allowance	3,016	2,451
Liabilities:		
Merchandise inventories	—	(26)
Property and equipment	(1,061)	(1,107)
Goodwill and other intangibles	(1,030)	(195)
Lease right-of-use assets	(1,555)	(1,458)
Tax on unremitted earnings	(119)	(100)
Other	(77)	(132)
Total deferred tax liabilities	(3,842)	(3,018)
Net deferred tax liabilities	$ (826)	$ (567)

Our noncurrent deferred tax assets and noncurrent deferred tax liabilities, netted by tax jurisdiction, follow:

in millions	January 31, 2021	February 2, 2020
Other assets	$ 305	$ 139
Deferred income taxes	(1,131)	(706)
Net deferred tax liabilities	$ (826)	$ (567)

As of January 31, 2021, we recorded deferred tax assets of $144 million for net operating losses, primarily related to state jurisdictions. These losses expire at various dates beginning in 2022. We have concluded that it is more likely than not that tax benefits related to substantially all net operating losses will be realized based upon the expectation that we will generate the necessary taxable income in future periods.

Reinvestment of Unremitted Earnings

Substantially all of our current year foreign cash flows in excess of working capital and cash needed for strategic investments are not intended to be indefinitely reinvested offshore. Therefore, the tax effects of repatriation (including applicable state and local taxes and foreign withholding taxes) of such cash flows have been provided for in the accompanying consolidated statements of earnings. We have the intent and ability to reinvest substantially all of the approximately $3 billion of non-cash unremitted earnings of our non-U.S. subsidiaries indefinitely. Accordingly, no provision for state and local taxes or foreign withholding taxes was recorded on these unremitted earnings in the accompanying consolidated statements of earnings. It is impracticable for us to determine the amount of unrecognized deferred tax liabilities on these indefinitely reinvested earnings due to the complexities associated with the hypothetical calculation.

Tax Return Examination Status

Our income tax returns are routinely examined by U.S. federal, state and local, and foreign tax authorities. With few exceptions, as of January 31, 2021, the Company is no longer subject to U.S. federal examinations by tax authorities for years before fiscal 2010. Our U.S. federal tax returns for fiscal years 2010 through 2018 are currently under examination by the IRS. With respect to the fiscal years 2010 to 2014, the IRS has issued a proposed adjustment relating to transfer pricing between our entities in the U.S. and China. We are defending our position using all available remedies including bi-lateral relief from double taxation. There are also ongoing U.S. state and local audits and other foreign audits covering fiscal years 2008 through 2019. We do not expect the results from any ongoing income tax audit to have a material impact on our consolidated financial condition, results of operations, or cash flows.

Over the next twelve months, it is reasonably possible that the resolution of federal and state tax examinations, as well as the expiration of statutes of limitations, could reduce our unrecognized tax benefits by an immaterial amount. We do not anticipate the resolution of these matters will result in a material change to our consolidated financial condition or results of operations.

Unrecognized Tax Benefits

Reconciliations of the beginning and ending amount of our gross unrecognized tax benefits follow:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Unrecognized tax benefits balance at beginning of fiscal year	$ 473	$ 494	$ 637
Additions based on tax positions related to the current year	75	96	91
Additions for tax positions of prior years	72	82	100
Reductions for tax positions of prior years	(53)	(147)	(245)
Reductions due to settlements	(22)	(13)	(66)
Reductions due to lapse of statute of limitations	(5)	(39)	(23)
Unrecognized tax benefits balance at end of fiscal year	$ 540	$ 473	$ 494

Unrecognized tax benefits that if recognized would affect our annual effective income tax rate on net earnings were $458 million, $407 million, and $398 million at January 31, 2021, February 2, 2020, and February 3, 2019, respectively.

Interest and Penalties

Net adjustments to accruals for interest and penalties associated with uncertain tax positions were immaterial in fiscal 2020, fiscal 2019 and fiscal 2018.

Our total accrued interest and penalties follow:

in millions	January 31, 2021	February 2, 2020
Total accrued interest and penalties	$ 97	$ 87

6. STOCKHOLDERS' EQUITY

Stock Rollforward

A reconciliation of the number of shares of our common stock follows:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Common stock:			
Balance at beginning of year	1,786	1,782	1,780
Shares issued under employee stock plans	3	4	2
Balance at end of year	1,789	1,786	1,782
Treasury stock:			
Balance at beginning of year	(709)	(677)	(622)
Repurchases of common stock	(3)	(32)	(55)
Balance at end of year	(712)	(709)	(677)
Shares outstanding at end of year	1,077	1,077	1,105

Annual per share cash dividends follow:

	Fiscal 2020	Fiscal 2019	Fiscal 2018
Cash dividends per share	$ 6.00	$ 5.44	$ 4.12

Accelerated Share Repurchase Agreements

We enter into ASR agreements from time to time with third-party financial institutions to repurchase shares of our common stock. Under an ASR agreement, we pay a specified amount to the financial institution and receive an initial delivery of shares. This initial delivery of shares represents the minimum number of shares that we 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 our common stock over the term of the 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 terms of each ASR agreement entered into during the last three fiscal years, structured as outlined above, follow (in millions):

Agreement Date	Settlement Date	Agreement Amount	Initial Shares Delivered	Additional Shares Delivered	Total Shares Delivered
Q1 2018	Q2 2018	750	3.4	0.8	4.2
Q2 2018	Q3 2018	1,600	7.1	1.0	8.1
Q3 2019	Q4 2019	820	3.2	0.4	3.6

7. FAIR VALUE MEASUREMENTS

The fair value of an asset is considered to be the price at which the asset could be sold in an orderly transaction between unrelated knowledgeable and willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, rather than the amount that would be paid to settle the liability with the creditor. Assets and liabilities recorded at fair value are measured using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities that are measured at fair value on a recurring basis follow:

in millions	Fair Value at January 31, 2021 Using			Fair Value at February 2, 2020 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative agreements – assets	$ —	$ 172	$ —	$ —	$ 133	$ —
Derivative agreements – liabilities	—	(71)	—	—	—	—
Total	$ —	$ 101	$ —	$ —	$ 133	$ —

The fair values of our derivative instruments are determined using an income approach and Level 2 inputs, which include the respective interest rate and foreign currency forward curves and discount rates.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The carrying amounts of cash and cash equivalents, receivables, short-term debt, and accounts payable approximate fair value due to the short-term maturities of these financial instruments.

Long-lived assets, goodwill, and other intangible assets are subject to nonrecurring fair value measurement for the measurement of impairment. We did not have any material assets or liabilities that were measured at fair value on a nonrecurring basis as of January 31, 2021 or February 2, 2020.

The aggregate fair values and carrying values of our senior notes follow:

in millions	January 31, 2021		February 2, 2020	
	Fair Value (Level 1)	Carrying Value	Fair Value (Level 1)	Carrying Value
Senior notes	$ 41,289	$ 34,472	$ 34,102	$ 29,344

8. STOCK-BASED COMPENSATION

Omnibus Stock Incentive Plans

The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan (the “2005 Plan”) and The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan (the “1997 Plan” and collectively with the 2005 Plan, the “Plans”) provide that incentive and nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, deferred shares, and other stock-based awards may be issued to certain of our associates and non-employee directors. Under the 2005 Plan, the maximum number of shares of our common stock authorized for issuance is 255 million shares, with any award other than a stock option or stock appreciation right reducing the number of shares available for issuance by 2.11 shares. At January 31, 2021, there were approximately 120 million shares available for future grants under the 2005 Plan. No additional equity awards could be issued from the 1997 Plan after the adoption of the 2005 Plan on May 26, 2005.

Stock Options. Under the terms of the Plans, incentive stock options and nonqualified stock options must have an exercise price at or above the fair market value of our stock on the date of the grant. Typically, nonqualified stock options vest at the rate of 25% per year commencing on the first or second anniversary date of the grant and expire on the tenth anniversary date of the grant. Additionally, a majority of our stock options may become non-forfeitable upon the associate reaching age 60, provided the associate has had five years of continuous service. No incentive stock options have been issued under the 2005 Plan.

We estimate the fair value of stock option awards on the date of grant using the Black-Scholes option-pricing model. Our determination of fair value of stock option awards on the date of grant using the Black-Scholes option-pricing model is affected by our stock price as well as assumptions regarding a number of variables.

The per share weighted average fair value of stock options granted and the assumptions used in determining fair value at the date of grant using the Black-Scholes option-pricing model follow:

	Fiscal 2020	Fiscal 2019	Fiscal 2018
Per share weighted average fair value	$ 36.77	$ 27.33	$ 32.28
Risk-free interest rate	0.6 %	2.2 %	2.7 %
Assumed volatility	29.9 %	19.8 %	21.3 %
Assumed dividend yield	3.1 %	2.9 %	2.3 %
Assumed lives of options	6 years	5 years	5 years

The total intrinsic value of stock options exercised follows:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Total intrinsic value of stock options exercised	$ 217	$ 241	$ 138

A summary of stock option activity by number of shares and weighted average exercise price during fiscal 2020 follows:

shares in thousands	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	5,212	$ 111.54
Granted	422	193.84
Exercised	(1,258)	75.83
Forfeited	(26)	169.40
Outstanding at end of year	4,350	129.50

Shares of common stock issued from stock option exercises are made available from authorized and unissued common stock or treasury stock.

Details regarding outstanding and exercisable stock options at January 31, 2021 follow:

shares in thousands, dollars in millions, except for per share amounts	Number of Shares	Intrinsic Value	Weighted Average Remaining Life	Weighted Average Exercise Price
Outstanding	4,350	$ 615	5 years	$ 129.50
Exercisable	2,677	454	4 years	101.08

Restricted Stock and Performance Share Awards. Restrictions on the restricted stock issued under the Plans generally lapse according to one of the following schedules:

- the restrictions on the restricted stock lapse over various periods up to five years; or
- the restrictions on 25% of the restricted stock lapse upon the third and sixth anniversaries of the date of issuance with the remaining 50% of the restricted stock lapsing upon the associate's attainment of age 62.

At the grant date of the award, recipients of restricted stock are granted voting rights and generally receive dividends on unvested shares, paid in the form of cash on each dividend payment date. Additionally, the majority of our restricted stock awards may become non-forfeitable upon the associate's attainment of age 60, provided the associate has had five years of continuous service.

We have also granted performance share awards under the Plans. These awards provide for the issuance of shares of our common stock at the end of the three-year performance cycle based upon our performance against target average ROIC and operating profit over that performance cycle. Additionally, the awards become non-forfeitable upon the associate's attainment of age 60, provided the associate has had five years of continuous service and minimum performance targets are achieved. Recipients of performance share awards have no voting rights until the shares are issued following completion of the performance period. Dividend equivalents accrue on the performance shares (as reinvested shares) and are paid upon the payout of the award based upon the actual number of shares earned.

The fair value of the restricted stock and performance shares is based on the closing stock price on the date of grant and is expensed over the period during which the restrictions lapse.

Restricted Stock Units and Deferred Shares. Each restricted stock unit entitles the associate to one share of common stock to be received upon vesting up to five years after the grant date. Additionally, the majority of these awards may become non-forfeitable upon the associate reaching age 60, provided the associate has had five years of continuous service. Recipients of restricted stock units have no voting rights until the vesting of the award. Recipients receive dividend equivalents that accrue on unvested units and are paid out in the form of additional shares of stock on the vesting date. The fair value of the restricted stock units is based on the closing stock price on the date of grant and is expensed over the period during which the units vest.

We grant awards of deferred shares to non-employee directors under the Plans. Each deferred share entitles the non-employee director to one share of common stock to be received following termination of Board service. Recipients of deferred shares have no voting rights and receive dividend equivalents that accrue and are paid out in the form of additional shares of stock upon payout of the underlying shares following termination of service. The fair value of the deferred shares is based on the closing stock price on the date of grant and is expensed immediately upon grant.

Deferred shares granted to non-employee directors follow:

	Fiscal 2020	Fiscal 2019	Fiscal 2018
Deferred shares granted to non-employee directors	18,000	22,000	26,000

Stock-Based Compensation Activity. A summary of restricted stock, performance shares, and restricted stock unit activity during fiscal 2020 follows:

shares in thousands	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	3,975	$ 170.58
Granted	1,803	181.75
Vested	(1,506)	155.14
Forfeited	(174)	177.71
Nonvested at end of year	4,098	180.87

Stock-based compensation expense, net of estimated forfeitures and related income tax benefit follows:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Pre-tax stock-based compensation expense	$ 310	$ 251	$ 282
Income tax benefit	(58)	(49)	(49)
After-tax stock-based compensation expense	$ 252	$ 202	$ 233

At January 31, 2021, there was $427 million of unamortized stock-based compensation expense, which is expected to be recognized over a weighted average period of two years.

The total fair value of restricted stock, performance shares, and restricted stock units that vested during the fiscal year follow:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Total fair value vested	$ 271	$ 303	$ 367

Employee Stock Purchase Plans

We maintain two ESPPs (a U.S. and a non-U.S. plan). The plan for U.S. associates is a tax-qualified plan under Section 423 of the Internal Revenue Code. The non-U.S. plan is not a Section 423 plan. At January 31, 2021, there were 17 million shares available under the U.S. plan and 19 million shares available under the non-U.S. plan. The purchase price of shares under the ESPPs is equal to 85% of the stock's fair market value on the last day of the purchase period, which is a six-month period ending on December 31 and June 30 of each year. During fiscal 2020, there were 1 million shares purchased under the ESPPs at an average price of $219.49. Under the outstanding ESPPs at January 31, 2021, associates have contributed $21 million to purchase shares at 85% of the stock’s fair market value on the last day of the current purchase period, June 30, 2021.

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9. EMPLOYEE BENEFIT PLANS

We maintain active defined contribution retirement plans for our associates (the “Benefit Plans”). All associates satisfying certain service requirements are eligible to participate in the Benefit Plans. We make cash contributions each payroll period up to specified percentages of associates’ contributions as approved by our Board of Directors.

We also maintain the Restoration Plan to provide certain associates deferred compensation that they would have received under the Benefit Plans as a matching contribution if not for the maximum compensation limits under the Internal Revenue Code. We fund the Restoration Plan through contributions made to a grantor trust, which are then used to purchase shares of our common stock in the open market.

Our contributions to the Benefit Plans and the Restoration Plan follow:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Contributions to the Benefit Plans and the Restoration Plan	$ 267	$ 213	$ 211

At January 31, 2021, the Benefit Plans and the Restoration Plan held a total of 5.8 million shares of our common stock in trust for plan participants.

10. WEIGHTED AVERAGE COMMON SHARES

The reconciliation of our basic to diluted weighted average common shares follows:

in millions	Fiscal 2020	Fiscal 2019	Fiscal 2018
Basic weighted average common shares	1,074	1,093	1,137
Effect of potentially dilutive securities	4	4	6
Diluted weighted average common shares	1,078	1,097	1,143
Anti-dilutive securities excluded from diluted weighted average common shares	—	—	—

11. COMMITMENTS AND CONTINGENCIES

At January 31, 2021, we had outstanding letters of credit totaling $510 million, primarily related to certain business transactions, including insurance programs, trade contracts, and construction contracts.

We are involved in litigation arising in the normal course of business. In management’s opinion, any such litigation is not expected to have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

12. HD SUPPLY ACQUISITION

On November 16, 2020, we announced that we entered into a definitive agreement to acquire HD Supply, a leading national distributor of MRO products in the multifamily and hospitality end markets. We believe the acquisition of HD Supply will help position the Company to accelerate sales growth by better serving both existing and new MRO customers. Under the terms of the merger agreement, a subsidiary of Home Depot made a cash tender offer to purchase all outstanding shares of HD Supply common stock for $56 per share. All of the conditions of the offer were satisfied, and the acquisition was completed on December 24, 2020. The acquisition was funded through cash on hand, a portion of which was replaced with the proceeds from our January 2021 debt issuance.

The acquisition was accounted for in accordance with Topic 805 "Business Combinations" and, accordingly, HD Supply’s results of operations have been consolidated in the Company’s financial statements since December 24, 2020, the date of acquisition. We recorded a preliminary allocation of the purchase price to assets acquired and liabilities assumed based on their estimated fair values as of

December 24, 2020. Acquisition-related costs were expensed as incurred and totaled $110 million, including the $56 million charge related to the settlement of share-based awards noted below.

The following table summarizes total purchase consideration:

in millions		
Total cash consideration for outstanding shares	$	8,637
Value of share-based awards attributed to services already rendered (1)		55
Total purchase consideration	$	8,692

(1) *In connection with the completion of the acquisition, all HD Supply share-based awards were cash settled for an aggregate value of $111 million. As the settlement of the awards was at the discretion of the Company, the portion of the fair value of the awards attributed to services previously provided of $55 million was included as part of purchase consideration, with the remaining $56 million recognized as post-combination expense within SG&A in our consolidated statement of earnings for fiscal 2020.*

The following table summarizes the estimated preliminary fair values of the assets acquired and liabilities assumed at the date of the acquisition and is subject to final fair value determination:

in millions		Fair Value
Cash	$	912
Other current assets		879
Goodwill		4,870
Other assets (1)		3,943
Total assets acquired	$	10,604
Current liabilities	$	801
Long-term liabilities (2)		1,111
Total liabilities assumed	$	1,912

(1) *Includes identifiable intangible assets of $3.3 billion.*

(2) *Includes deferred tax liabilities of $836 million primarily resulting from the difference in book and tax basis related to identifiable intangible assets.*

Identifiable intangible assets were recognized at their estimated acquisition date fair values. The preliminary fair value of identifiable intangible assets was determined by using certain estimates and assumptions that are not observable in the market. The preliminary fair values were determined using an income based approach, which included significant assumptions such as the amount and timing of projected cash flows, growth rates, customer attrition rates, discount rates, and the assessment of the asset's life cycle. The preliminary estimated fair value and estimated remaining useful lives of identifiable intangible assets follows:

in millions	Useful Life (Years)		Preliminary Fair Value
Customer relationships	19	$	2,630
Trade name – indefinite lived	Indefinite		520
Trade names – definite lived	20		150
Identifiable intangible assets		$	3,300

The goodwill arising from the acquisition is primarily attributable to operational synergies and acceleration of growth strategy, as well as the assembled workforce. The goodwill generated in the acquisition is not expected to be deductible for U.S. federal and state tax purposes.

We have completed preliminary valuation analyses necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed and the amount of goodwill to be recognized as of the acquisition date. These fair values were based on management's estimates and assumptions; however, the amounts shown above are preliminary in nature and are subject to adjustment, including income tax related amounts, as additional information is obtained about the facts and circumstances that existed as of the acquisition date. Accordingly, there may be adjustments to the assigned values of acquired assets and liabilities, including, but not limited to, intangible assets and property and equipment and their respective estimated useful lives, that may also give rise to increases or decreases in the amounts of depreciation and amortization expense. The final determination of the fair values and related income tax impacts will be completed as soon as practicable, and within the measurement period of up to one year from the acquisition date as permitted under GAAP. Any adjustments to provisional amounts that are identified during the measurement period will be recorded in the reporting period in which the adjustment is determined.

Net sales and net earnings for fiscal 2020 attributable to HD Supply since the completion of the acquisition were immaterial. Pro forma results of operations would not be materially different as a result of the acquisition and therefore are not presented.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) promulgated under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of January 31, 2021 based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of January 31, 2021 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management excluded HD Supply from our assessment of internal control over financial reporting as of January 31, 2021 because it was acquired by the Company on December 24, 2020. HD Supply represents approximately 3% of the Company's consolidated total assets, excluding goodwill and intangible assets recorded, and less than 1% of the Company's consolidated net sales, as of and for the year ended January 31, 2021. See Note 12 to our consolidated financial statements for further discussion of the HD Supply acquisition.

The effectiveness of our internal control over financial reporting as of January 31, 2021 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control Over Financial Reporting

During the second quarter of fiscal 2020, we temporarily suspended physical inventory counts in our stores as a
result of COVID-19. We resumed physical inventory counts during the third quarter of fiscal 2020, and updated controls related to our use of the results from a sample of stores that were able to conduct physical inventories as a basis for estimating shrink for those stores at which physical inventory counts were temporarily suspended during the year.

We are in the process of an ongoing business transformation initiative, which included upgrading and migrating certain accounting and finance systems in the U.S in fiscal 2020. We plan to continue to migrate additional business processes over the course of the next few years and have modified and will continue to modify the design and implementation of certain internal control processes as the integration continues.

Except as described above, there were no other changes in our internal control over financial reporting during the fiscal quarter ended January 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
The Home Depot, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited The Home Depot, Inc. and subsidiaries' (the Company) internal control over financial reporting as of January 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of January 31, 2021 and February 2, 2020, the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the fiscal years in the three-year period ended January 31, 2021, and the related notes (collectively, the consolidated financial statements), and our report dated March 24, 2021 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired HD Supply Holdings, Inc. during fiscal 2020, and management excluded HD Supply Holdings, Inc. from its assessment of the effectiveness of the Company's internal control over financial reporting as of January 31, 2021. HD Supply Holdings, Inc. represents approximately 3% of the Company's consolidated total assets, excluding goodwill and intangibles recorded, and less than 1% of the Company's consolidated net sales as of and for the year ended January 31, 2021. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of HD Supply Holdings, Inc.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Atlanta, Georgia

March 24, 2021

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Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this item, other than the information regarding the executive officers set forth below, is incorporated by reference to the sections entitled "Election of Directors," "Corporate Governance," "General," and "Audit Committee Report" in our Proxy Statement for the 2021 Annual Meeting of Shareholders ("Proxy Statement").

Executive officers are appointed by, and serve at the pleasure of, the Board of Directors. Our executive officers are as follows:

ANN-MARIE CAMPBELL, age 55, has been Executive Vice President – U.S. Stores and International Operations since October 2020. From February 2016 to October 2020, she served as Executive Vice President – U.S. Stores, from January 2009 to February 2016, she served as Division President of the Southern Division, and from December 2005 to January 2009, she served as Vice President – Vendor Services. Ms. Campbell began her career with The Home Depot in 1985 as a cashier and has held roles of increasing responsibility since she joined the Company, including vice president roles in the Company's operations, merchandising, and marketing departments. She serves as a director of Workday, Inc., a financial and human capital management software vendor.

MATTHEW A. CAREY, age 56, has been Executive Vice President and Chief Information Officer since September 2008. From January 2006 through August 2008, he served as Senior Vice President and Chief Technology Officer at eBay Inc., an online commerce platform. Mr. Carey was previously with Wal-Mart Stores, Inc., a general merchandise retailer, from June 1985 to December 2005. His final position with Wal-Mart was Senior Vice President and Chief Technology Officer.

EDWARD P. DECKER, age 58, has been President and Chief Operating Officer since October 2020. From August 2014 to October 2020, he served as Executive Vice President – Merchandising, and from October 2006 through July 2014, he served as Senior Vice President – Retail Finance, Pricing Analytics, and Assortment Planning. Mr. Decker joined The Home Depot in 2000 and held various strategic planning roles, including serving as Vice President – Strategic Business Development from November 2002 to April 2006 and Senior Vice President – Strategic Business and Asset Development from April 2006 to September 2006. Prior to joining the Company, Mr. Decker held various positions in strategic planning, business development, finance, and treasury at Kimberly-Clark Corp. and Scott Paper Co., both of which are consumer products companies.

MARK Q. HOLIFIELD, age 64, has been Executive Vice President – Supply Chain and Product Development since February 2014. From July 2006 through February 2014, he served as Senior Vice President – Supply Chain. Mr. Holifield was previously with Office Depot, Inc., an office products and services company, from 1994 through July 2006, where he served in various supply chain positions, including Executive Vice President of Supply Chain Management.

TIMOTHY A. HOURIGAN, age 64, has been Executive Vice President – Human Resources since June 2017. From February 2016 through June 2017, he served as Division President of the Southern Division. Prior to his role as Division President, Mr. Hourigan served in various human resources roles with the Company, including Vice President – Human Resources, U.S. Stores and Operations from September 2013 to February 2016; Vice President – Compensation and Benefits from February 2007 to September 2013; and Vice President – Human Resources from July 2002 to February 2007.

JEFFREY G. KINNAIRD, age 47, has been Executive Vice President – Merchandising since October 2020. From January 2016 to October 2020, he served as President of The Home Depot Canada. Mr. Kinnaird joined the Company in July 1996 as a store associate in Canada and has held roles of increasing responsibility at The Home Depot Canada, including District Manager, Regional Vice President and Merchandising Vice President.

WILLIAM G. LENNIE, age 65, has been Executive Vice President – Outside Sales & Service since July 2015 and has announced he plans to retire in the summer of 2021. From March 2011 through January

2016, he served as President of The Home Depot Canada, and he served as Senior Vice President – International Merchandising, Private Brands, and Global Sourcing from March 2009 through March 2011. Mr. Lennie originally joined the Company in 1992 and held roles of increasing responsibility in the Company's merchandising department. In 2006, Mr. Lennie left the Company to be Senior Vice President of Merchandising, Hardlines for Dick's Sporting Goods, Inc., a sporting goods retailer, before re-joining The Home Depot in 2009.

RICHARD V. McPHAIL, age 50, has been Executive Vice President and Chief Financial Officer since September 2019. From August 2017 through August 2019, he served as Senior Vice President, Finance Control and Administration, of the Company, and was responsible for enterprise financial reporting and operations, financial planning and analysis, treasury, payments, tax, and international financial operations. From August 2014 to September 2017, he served as Senior Vice President, Finance, with responsibility for U.S. Retail finance, strategic and financial planning, and business development activity. Mr. McPhail served as Senior Vice President, Global FP&A, Strategy, and New Business Development, from March 2013 to August 2014; Vice President, Strategic Business Development, from January 2007 to March 2013; and director of Strategic Business Development from May 2005 to January 2007. Prior to joining the Company in 2005, Mr. McPhail served as executive vice president of corporate finance for Marconi Corporation plc in London, England, where he led their business development efforts. Prior to Marconi, Mr. McPhail held positions with Wachovia Securities and with Arthur Andersen.

CRAIG A. MENEAR, age 63, has been our Chief Executive Officer since November 2014 and our Chairman since February 2015. He also served as our President from November 2014 to October 2020. He previously served as our President, U.S. Retail from February 2014 through October 2014. From April 2007 through February 2014, he served as Executive Vice President – Merchandising, and from August 2003 through April 2007, he served as Senior Vice President – Merchandising. From 1997 through August 2003, Mr. Menear served in various management and vice president level positions in the Company's merchandising department, including Merchandising Vice President of Hardware, Merchandising Vice President of the Southwest Division, and Divisional Merchandise Manager of the Southwest Division.

TERESA WYNN ROSEBOROUGH, age 62, has been Executive Vice President, General Counsel and Corporate Secretary since November 2011. From April 2006 through November 2011, Ms. Roseborough served in several legal positions with MetLife, Inc., a provider of insurance and other financial services, including Senior Chief Counsel – Compliance & Litigation and most recently as Deputy General Counsel. Prior to joining MetLife, Ms. Roseborough was a partner with the law firm Sutherland Asbill & Brennan LLP from February 1996 through March 2006 and a Deputy Assistant Attorney General in the Office of Legal Counsel of the United States Department of Justice from January 1994 through February 1996. Ms. Roseborough serves as a director of The Hartford Financial Services Group, Inc., an investment and insurance company.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to the sections entitled "Executive Compensation," "Director Compensation," and "Leadership Development and Compensation Committee Report" in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference to the sections entitled "Beneficial Ownership of Common Stock" and "Executive Compensation – Equity Compensation Plan Information" in our Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference to the section entitled "Corporate Governance" in our Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated by reference to the section entitled "Independent Registered Public Accounting Firm's Fees" in our Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

The following documents are filed as part of this report:

1. Financial Statements

The following financial statements are set forth in Item 8 hereof:

- Report of Independent Registered Public Accounting Firm;
- Consolidated Balance Sheets as of January 31, 2021 and February 2, 2020;
- Consolidated Statements of Earnings for fiscal 2020, fiscal 2019, and fiscal 2018;

- Consolidated Statements of Comprehensive Income for fiscal 2020, fiscal 2019, and fiscal 2018;
- Consolidated Statements of Stockholders' Equity for fiscal 2020, fiscal 2019, and fiscal 2018;
- Consolidated Statements of Cash Flows for fiscal 2020, fiscal 2019, and fiscal 2018; and
- Notes to Consolidated Financial Statements.

2. Financial Statement Schedules

All schedules are omitted as the required information is inapplicable or the information is presented in our consolidated financial statements or related notes.

3. Exhibits

Exhibits not filed or furnished herewith are incorporated by reference to exhibits previously filed with the SEC, as reflected in the table below. Our Current, Quarterly, and Annual Reports are filed with the SEC under File No. 1-8207. Our Registration Statements have the file numbers noted wherever such statements are identified in the following list of exhibits. We will furnish a copy of any exhibit to shareholders without charge upon written request to Investor Relations, The Home Depot, Inc., 2455 Paces Ferry Road, Atlanta, Georgia 30339, via the internet at http://ir.homedepot.com, or by calling Investor Relations at (770) 384-2871.

Exhibit	Description	Reference
2.1	Agreement and Plan of Merger, dated as of November 15, 2020, by and among The Home Depot, Inc., Coronado Acquisition Sub Inc. and HD Supply Holdings, Inc.	Form 8-K filed November 18, 2020, Exhibit 2.1
3.1	Amended and Restated Certificate of Incorporation of The Home Depot, Inc.	Form 10-Q for the fiscal quarter ended July 31, 2011, Exhibit 3.1
3.2	By-Laws of The Home Depot, Inc. (Amended and Restated Effective February 28, 2019)	Form 8-K filed on March 4, 2019, Exhibit 3.2
4.1	Indenture, dated as of May 4, 2005, between The Home Depot, Inc. and The Bank of New York Trust Company, N.A., as Trustee	Form S-3 (File No. 333-124699) filed May 6, 2005, Exhibit 4.1
4.2	Indenture, dated as of August 24, 2012 between The Home Depot, Inc. and Deutsche Bank Trust Company Americas, as Trustee	Form S-3 (File No. 333-183621) filed August 29, 2012, Exhibit 4.3
4.3	Form of 5.875% Senior Note due December 16, 2036	Form 8-K filed December 19, 2006, Exhibit 4.3
4.4	Form of 5.40% Senior Note due September 15, 2040	Form 8-K filed September 10, 2010, Exhibit 4.2
4.5	Form of 4.40% Senior Note due April 1, 2021	Form 8-K filed March 31, 2011, Exhibit 4.1
4.6	Form of 5.95% Senior Note due April 1, 2041	Form 8-K filed March 31, 2011, Exhibit 4.2
4.7	Form of 2.700% Senior Note due April 1, 2023	Form 8-K filed April 5, 2013, Exhibit 4.2
4.8	Form of 4.200% Senior Note due April 1, 2043	Form 8-K filed April 5, 2013, Exhibit 4.3
4.9	Form of 3.750% Senior Note due February 15, 2024	Form 8-K filed September 10, 2013, Exhibit 4.3
4.10	Form of 4.875% Senior Note due February 15, 2044	Form 8-K filed September 10, 2013, Exhibit 4.4
4.11	Form of 4.40% Senior Note due March 15, 2045	Form 8-K filed June 12, 2014, Exhibit 4.3
4.12	Form of 2.625% Senior Note due June 1, 2022	Form 8-K filed June 2, 2015, Exhibit 4.2
4.13	Form of 4.250% Senior Note due April 1, 2046	Form 8-K filed June 2, 2015, Exhibit 4.3
4.14	Form of 3.35% Note due September 15, 2025	Form 8-K filed September 15, 2015, Exhibit 4.3
4.15	Form of 2.000% Senior Note due April 1, 2021	Form 8-K filed February 12, 2016, Exhibit 4.2
4.16	Form of 3.000% Senior Note due April 1, 2026	Form 8-K filed February 12, 2016, Exhibit 4.3
4.17	Form of 4.250% Senior Note due April 1, 2046	Form 8-K filed February 12, 2016, Exhibit 4.4
4.18	Form of 2.125% Senior Note due September 15, 2026	Form 8-K filed September 15, 2016, Exhibit 4.2
4.19	Form of 3.500% Senior Note due September 15, 2056	Form 8-K filed September 15, 2016, Exhibit 4.3

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Exhibit		Description	Reference
4.20		Form of 3.900% Senior Note due June 15, 2047	Form 8-K filed June 5, 2017, Exhibit 4.4
4.21		Form of 2.800% Note due September 14, 2027	Form 8-K filed September 14, 2017, Exhibit 4.2
4.22		Form of Floating Rate Note due March 1, 2022	Form 8-K filed December 6, 2018, Exhibit 4.2
4.23		Form of 3.250% Senior Note due March 1, 2022	Form 8-K filed December 6, 2018, Exhibit 4.3
4.24		Form of 3.900% Senior Note due December 6, 2028	Form 8-K filed December 6, 2018, Exhibit 4.4
4.25		Form of 4.500% Senior Note due December 6, 2048	Form 8-K filed December 6, 2018, Exhibit 4.5
4.26		Form of 2.950% Note due June 15, 2029	Form 8-K filed June 17, 2019, Exhibit 4.2
4.27		Form of 3.900% Note due June 15, 2047	Form 8-K filed June 17, 2019, Exhibit 4.3
4.28		Form of 2.950% Note due June 15, 2029	Form 8-K filed January 13, 2020, Exhibit 4.2
4.29		Form of 3.125% Note due December 15, 2049	Form 8-K filed January 13, 2020, Exhibit 4.3
4.30		Form of 2.500% Note due April 15, 2027	Form 8-K filed March 30, 2020, Exhibit 4.2
4.31		Form of 2.700% Note due April 15, 2030	Form 8-K filed March 30, 2020, Exhibit 4.3
4.32		Form of 3.300% Note due April 15, 2040	Form 8-K filed March 30, 2020, Exhibit 4.4
4.33		Form of 3.350% Note due April 15, 2050	Form 8-K filed March 30, 2020, Exhibit 4.5
4.34		Form of 0.900% Note due March 15, 2028	Form 8-K filed January 7, 2021, Exhibit 4.2
4.35		Form of 1.375% Note due March 15, 2031	Form 8-K filed January 7, 2021, Exhibit 4.3
4.36		Form of 2.375% Note due March 15, 2051	Form 8-K filed January 7, 2021, Exhibit 4.4
4.37		Description of Securities	Form 10-K for the fiscal year ended February 2, 2020, Exhibit 4.33
10.1	†	The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended August 4, 2002, Exhibit 10.1
10.2	†	Form of Executive Employment Death Benefit Agreement	Form 10-K for the fiscal year ended February 3, 2013, Exhibit 10.2
10.3	†	The Home Depot Deferred Compensation Plan for Officers (As Amended and Restated Effective January 1, 2008)	Form 8-K filed on August 20, 2007, Exhibit 10.1
10.4	†	Amendment No. 1 to The Home Depot Deferred Compensation Plan for Officers (As Amended and Restated Effective January 1, 2008)	Form 10-K for the fiscal year ended January 31, 2010, Exhibit 10.4
10.5	*†	Amendment No. 2 to The Home Depot Deferred Compensation Plan for Officers (As Amended and Restated Effective January 1, 2008)	
10.6	†	The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended May 5, 2013, Exhibit 10.1
10.7	†	Amendment No. 1 to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan and The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan	Form 10-K for the fiscal year ended January 31, 2010, Exhibit 10.6
10.8	†	The Home Depot FutureBuilder Restoration Plan	Form 8-K filed on August 20, 2007, Exhibit 10.2
10.9	†	Amendment No.1 to The Home Depot FutureBuilder Restoration Plan	Form 10-K for the fiscal year ended February 2, 2014, Exhibit 10.8
10.10	†	The Home Depot, Inc. Nonemployee Directors' Deferred Stock Compensation Plan	Form 8-K filed on August 20, 2007, Exhibit 10.3

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Exhibit		Description	Reference
10.11	†	The Home Depot, Inc. Amended and Restated Management Incentive Plan (Effective November 21, 2013)	Form 10-K for the fiscal year ended February 2, 2014, Exhibit 10.10
10.12	†	The Home Depot, Inc. Amended and Restated Employee Stock Purchase Plan, as amended and restated effective July 1, 2012	Form 10-Q for the fiscal quarter ended April 29, 2012, Exhibit 10.1
10.13	†	Form of Executive Officer Restricted Stock Award Pursuant to The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended October 31, 2004, Exhibit 10.1
10.14	†	Form of Executive Officer Nonqualified Stock Option Award Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 13, 2009, Exhibit 10.4
10.15	†	Form of Deferred Share Award (Nonemployee Director) Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on November 15, 2007, Exhibit 10.1
10.16	†	Form of Equity Award Terms and Conditions Agreement Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 2, 2011, Exhibit 10.1
10.17	†	Form of Executive Officer Equity Award Terms and Conditions Agreement Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 6, 2013, Exhibit 10.1
10.18	†	Form of Executive Officer Equity Award Agreement (Nonqualified Stock Option) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 8, 2016, Exhibit 10.1
10.19	†	Form of Executive Officer Equity Award Agreement (Performance Based Restricted Stock) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 8, 2016, Exhibit 10.2
10.20	†	Form of Executive Officer Equity Award Agreement (Performance Shares) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 8, 2016, Exhibit 10.3
10.21	†	Form of Deferred Share Award (Nonemployee Director) Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 10-K for the fiscal year ended January 29, 2017, Exhibit 10.21
10.22	†	Form of Executive Officer Equity Award Agreement (Performance Shares) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on February 28, 2018, Exhibit 10.1
10.23	†	Form of Executive Officer Equity Award Agreement (Performance Based Restricted Stock) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on February 28, 2018, Exhibit 10.2
10.24	†	Form of Executive Officer Equity Award Agreement (Nonqualified Stock Option) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on February 28, 2018, Exhibit 10.3
10.25	†	Form of Executive Officer Equity Award Agreement (Performance Shares) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 4, 2019, Exhibit 10.1
10.26	†	Form of Executive Officer Equity Award Agreement (Performance-Based Restricted Stock) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 4, 2019, Exhibit 10.2

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Exhibit		Description	Reference
10.27	†	Form of Executive Officer Equity Award Agreement (Nonqualified Stock Option) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 4, 2019, Exhibit 10.3
10.28	†	Form of Executive Officer Equity Award Agreement Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 2, 2020, Exhibit 10.1
10.29	†	Form of Executive Officer Restricted Stock and Stock Option Award Agreement Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended November 1, 2020, Exhibit 10.4
10.30	†	Form of Executive Officer Equity Award Agreement Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 1, 2021, Exhibit 10.1
10.31	†	Employment Arrangement between Craig A. Menear and The Home Depot, Inc., dated October 16, 2014	Form 10-Q for the fiscal quarter ended November 2, 2014, Exhibit 10.2
10.32	†	Employment Arrangement between Richard V. McPhail and The Home Depot, Inc. dated October 1, 2020	Form 10-Q for the fiscal quarter ended November 1, 2020, Exhibit 10.1
10.33	†	Employment Arrangement between Edward P. Decker and The Home Depot, Inc., dated October 1, 2020	Form 10-Q for the fiscal quarter ended November 1, 2020, Exhibit 10.2
10.34	†	Employment Arrangement between Ann-Marie Campbell and The Home Depot, Inc. dated October 1, 2020	Form 10-Q for the fiscal quarter ended November 1, 2020, Exhibit 10.3
10.35	†	Employment Arrangement between Mark Q. Holifield and The Home Depot, Inc., dated February 27, 2014	Form 10-K for the fiscal year ended February 1, 2015, Exhibit 10.30
21	*	List of Subsidiaries of the Company	
23	*	Consent of Independent Registered Public Accounting Firm	
31.1	*	Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(a)	
31.2	*	Certification of Executive Vice President and Chief Financial Officer pursuant to Rule 13a-14(a)	
32.1	‡	Certification of Chairman and Chief Executive Officer furnished pursuant Section 906 of the Sarbanes-Oxley Act of 2002	
32.2	‡	Certification of Executive Vice President and Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
101.INS	*	XBRL Instance Document - the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the Inline XBRL document	
101.SCH	*	XBRL Taxonomy Extension Schema Document	
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document	

Exhibit	Description	Reference
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	

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† *Management contract or compensatory plan or arrangement*

* *Filed herewith*

‡ *Furnished (and not filed) herewith pursuant to Item 601(b)(32)(ii) of the SEC's Regulation S-K*

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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
and Chief Executive Officer

Date: March 24, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of March 24, 2021.

Signature	Title
/s/ CRAIG A. MENEAR Craig A. Menear	Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ RICHARD V. MCPHAIL Richard V. McPhail	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ STEPHEN L. GIBBS Stephen L. Gibbs	Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)
/s/ GERARD J. ARPEY Gerard J. Arpey	Director
/s/ ARI BOUSBIB Ari Bousbib	Director
/s/ JEFFERY H. BOYD Jeffery H. Boyd	Director
/s/ GREGORY D. BRENNEMAN Gregory D. Brenneman	Director
/s/ J. FRANK BROWN J. Frank Brown	Director
/s/ ALBERT P. CAREY Albert P. Carey	Director
/s/ HELENA B. FOULKES Helena B. Foulkes	Director
/s/ LINDA R. GOODEN Linda R. Gooden	Director
/s/ WAYNE M. HEWETT Wayne M. Hewett	Director
/s/ MANUEL KADRE Manuel Kadre	Director
/s/ STEPHANIE C. LINNARTZ Stephanie C. Linnartz	Director

THE HOME DEPOT, INC.
SELECTED FINANCIAL DATA

amounts in millions, except per share data or where noted	Fiscal 2020	Fiscal 2019	Fiscal 2018	Fiscal 2017	Fiscal 2016
STATEMENT OF EARNINGS DATA					
Net sales ($)	132,110	110,225	108,203	100,904	94,595
Net sales increase (%)	19.9	1.9	7.2	6.7	6.9
Earnings before provision for income taxes ($)	16,978	14,715	14,556	13,698	12,491
Net earnings ($)	12,866	11,242	11,121	8,630	7,957
Net earnings increase (%)	14.4	1.1	28.9	8.5	13.5
Diluted earnings per share ($)	11.94	10.25	9.73	7.29	6.45
Diluted earnings per share increase (%)	16.5	5.3	33.5	13.0	18.1
Diluted weighted average number of common shares	1,078	1,097	1,143	1,184	1,234
Gross profit – % of sales	34.0	34.1	34.3	34.0	34.2
Total operating expenses – % of sales	20.1	19.7	20.0	19.5	20.0
Net earnings – % of sales	9.7	10.2	10.3	8.6	8.4
BALANCE SHEET DATA AND FINANCIAL RATIOS					
Total assets ($)	70,581	51,236	44,003	44,529	42,966
Working capital ($)	5,311	1,435	1,813	2,739	3,591
Merchandise inventories ($)	16,627	14,531	13,925	12,748	12,549
Net property and equipment ($)	24,705	22,770	22,375	22,075	21,914
Long-term debt, excluding current installments ($)	35,822	28,670	26,807	24,267	22,349
Stockholders' equity (deficit) ($)	3,299	(3,116)	(1,878)	1,454	4,333
Total debt-to-equity (%)	1,128.8	(1,010.4)	(1,555.0)	1,858.9	544.7
Inventory turnover	5.8	4.9	5.1	5.1	4.9
STATEMENT OF CASH FLOWS DATA					
Depreciation and amortization ($)	2,519	2,296	2,152	2,062	1,973
Capital expenditures ($)	2,463	2,678	2,442	1,897	1,621
OTHER METRICS					
Return on invested capital (%)	40.8	45.4	44.8	34.2	31.4
Cash dividends per share ($)	6.00	5.44	4.12	3.56	2.76
Number of stores	2,296	2,291	2,287	2,284	2,278
Retail square footage at fiscal year-end	239	238	238	237	237
Comparable sales increase (%) (1) (3)	19.7	3.5	5.2	6.8	5.6
Sales per retail square foot ($) (2)	543.74	454.82	446.86	417.02	390.78
Customer transactions (2)	1,756	1,616	1,621	1,579	1,544
Average ticket ($) (2)	74.32	67.30	65.74	63.06	60.35
Number of associates at fiscal year-end (in thousands)	505	415	413	413	406

Note: Fiscal 2018 includes 53 weeks. All other fiscal periods disclosed include 52 weeks. This information should be read in conjunction with MD&A and our consolidated financial statements and related notes.

(1) *Calculations do not include results of HD Supply, which was acquired in December 2020. Calculations for fiscal 2017 and fiscal 2016 do not include results for Interline, now operating as part of The Home Depot Pro.*

(2) *These amounts do not include the results for Interline, now operating as part of The Home Depot Pro, and HD Supply, which was acquired in December 2020.*

(3) *Fiscal 2019 compares the 52 week period in fiscal 2019 to weeks 2 through 53 in fiscal 2018. Fiscal 2018 calculations do not include results from the 53rd week of fiscal 2018 and compare weeks 1 through 52 in fiscal 2018 to the 52 week period in fiscal 2017.*

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended February 2, 2020

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

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THE HOME DEPOT, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-3261426**
(State or other jurisdiction incorporation or organization)	(I.R.S. Employer Identification No.)
2455 Paces Ferry Road	
Atlanta, Georgia	**30339**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.05 Par Value Per Share	HD	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ 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 ☒ Accelerated filer ☐ Non-accelerated filer ☐ 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 Act). Yes ☐ No ☒

The aggregate market value of voting common stock held by non-affiliates of the registrant on August 4, 2019 was $232.3 billion.

The number of shares outstanding of the registrant's common stock as of March 6, 2020 was 1,074,741,592 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2020 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K to the extent described herein.

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COMMONLY USED OR DEFINED TERMS

Term	Definition
ASR	Accelerated share repurchase
ASU	Accounting Standards Update
ASU No. 2014-09	Revenue from Contracts with Customers (Topic 606)
BODFS	Buy Online, Deliver From Store
BOPIS	Buy Online, Pick-up In Store
BORIS	Buy Online, Return In Store
BOSS	Buy Online, Ship to Store
CDP	The not-for-profit organization formerly known as the Carbon Disclosure Project
CFL	Compact fluorescent light
Comparable sales	As defined in the Results of Operations and Non-GAAP Financial Measures section of MD&A
DIFM	Do-It-For-Me
DIY	Do-It-Yourself
EH&S	Environmental, Health, and Safety
EPA	U.S. Environmental Protection Agency
ESPP	Employee Stock Purchase Plan
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FIRST phone	Web-enabled handheld device used by associates in our stores
fiscal 2014	Fiscal year ended February 1, 2015 (includes 52 weeks)
fiscal 2015	Fiscal year ended January 31, 2016 (includes 52 weeks)
fiscal 2016	Fiscal year ended January 29, 2017 (includes 52 weeks)
fiscal 2017	Fiscal year ended January 28, 2018 (includes 52 weeks)
fiscal 2018	Fiscal year ended February 3, 2019 (includes 53 weeks)
fiscal 2019	Fiscal year ended February 2, 2020 (includes 52 weeks)
fiscal 2020	Fiscal year ended January 31, 2021 (includes 52 weeks)
FSC	Forest Stewardship Council
GAAP	U.S. generally accepted accounting principles
Interline	The legacy Interline Brands business, now operating as a part of The Home Depot Pro
IRS	Internal Revenue Service
LIBOR	London interbank offered rate
MD&A	Management’s Discussion and Analysis of Financial Condition and Results of Operations
MRO	Maintenance, repair, and operations
NOPAT	Net operating profit after tax
NYSE	New York Stock Exchange
PLCC	Private label credit card
Pro	Professional customer
Restoration Plan	Home Depot FutureBuilder Restoration Plan
ROIC	Return on invested capital
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
SG&A	Selling, general, and administrative
Tax Act	Tax Cuts and Jobs Act of 2017

CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements contained herein, as well as in other filings we make with the SEC and other written and oral information we release, 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 sales; effects of competition; implementation of store, interconnected retail, supply chain and technology initiatives; inventory and in-stock positions; state of the economy; state of the housing and home improvement markets; state of the credit markets, including mortgages, home equity loans, and consumer credit; impact of tariffs; issues related to the payment methods we accept; demand for credit offerings; management of relationships with our associates, suppliers and vendors; international trade disputes, natural disasters, public health issues (including pandemics and quarantines), and other business interruptions that could disrupt supply or delivery of, or demand for, the Company’s products; 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 impact and expected outcome of investigations, inquiries, claims, and litigation; the effect of accounting charges; the effect of adopting certain accounting standards; the impact of the Tax Act and other regulatory changes; 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, dependent on actions of third parties, or 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 Item 1A, “Risk Factors,” and elsewhere in this report and also as may be described from time to time in future reports we file with the SEC.

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 filings with the SEC.

PART I

Item 1. Business.

Introduction

The Home Depot, Inc. is the world's largest home improvement retailer based on net sales for fiscal 2019. We offer our customers a wide assortment of building materials, home improvement products, lawn and garden products, and décor products and provide a number of services, including home improvement installation services and tool and equipment rental. As of the end of fiscal 2019, we had 2,291 The Home Depot stores located throughout the U.S. (including the Commonwealth of Puerto Rico and the territories of the U.S. Virgin Islands and Guam), Canada, and Mexico. The Home Depot stores average approximately 104,000 square feet of enclosed space, with approximately 24,000 additional square feet of outside garden area. We also maintain a network of distribution and fulfillment centers, as well as a number of e-commerce websites. When we refer to "The Home Depot," the "Company," "we," "us" or "our" in this report, we are referring to The Home Depot, Inc. and its consolidated subsidiaries.

The Home Depot, Inc. is a Delaware corporation that was incorporated in 1978. Our Store Support Center (corporate office) is located at 2455 Paces Ferry Road, Atlanta, Georgia 30339. Our telephone number at that address is (770) 433-8211.

Our Business

Our Strategy

The retail landscape has changed rapidly over the past several years, with customer expectations regarding how, when and where they want to shop constantly evolving. To meet this challenge, we have had to become more agile in our response to the changing competitive environment and customer preferences. As a result, in late 2017, we launched our transformational journey to create the One Home Depot experience, our vision of an interconnected, frictionless shopping experience that enables our customers to seamlessly blend the digital and physical worlds. We are now two years into our multi-year, approximately $11 billion accelerated investment program to create this experience. We are investing in our stores, associates, interconnected and digital experience, Pro customer experience, services business, supply chain, and product and innovation to drive value for our customers, our associates, our suppliers, and our shareholders. We are guided in our investments by a "customer-back" approach, focusing on the customer experience as we invest. This focus has driven investments aimed at providing an interconnected shopping experience, featuring curated and innovative product choices, personalized for the individual shopper's needs, which are then delivered in a fast and cost-efficient manner. To accomplish this, we are executing against five key strategies designed to drive growth in our business:

- **Connect associates to customer needs**
- **Interconnected experience: connect stores to online, and online to stores**
- **Connect products and services to customer needs**
- **Connect product to shelf, site and customer**
- **Innovate our business model and value chain**

Taken together, these strategies are helping us to leverage our competitive advantages and create the One Home Depot experience that our customers demand. To highlight our evolution and the capabilities we have developed for the benefit of our customers along this journey, we also changed our tagline in fiscal 2019 to "How Doers Get More Done™", with a corresponding marketing campaign designed to show our customers the ways we are making home improvement easier, faster and more convenient for them. We discuss below many of our efforts and investments in the context of our five key strategies.

Connect Associates to Customer Needs

As noted above, we have been guided by a focus on our customers in our development of the One Home Depot experience, and we leverage our knowledgeable and engaged associates, guided by our culture and values, to address customer needs. We serve two primary customer groups and have developed different approaches to meet their diverse needs:

- *DIY Customers.* These customers are typically home owners who purchase products and complete their own projects and installations. Our associates assist these customers both in our stores and through online resources and other media designed to provide product and project knowledge. We also offer a variety of clinics and workshops both to share this knowledge and to build an emotional connection with our DIY customers.

- *Professional Customers (or "Pros")*. These customers are primarily professional renovators/ remodelers, general contractors, handymen, property managers, building service contractors and specialty tradesmen, such as electricians, plumbers and painters. These customers build, renovate, remodel, repair and maintain residential properties, multifamily properties, hospitality properties and commercial facilities, including education facilities, healthcare facilities, government buildings and office buildings. We recognize the great value our Pro customers provide to their clients, and we strive to make the Pros' job easier and help them grow their business. We believe that investments aimed at deepening our relationships with our Pro customers are yielding increased engagement and will continue to translate into incremental spend. As part of our continued commitment to invest in Pro customer relationships and the significant market opportunity these customers represent, we have created an enhanced Pro customer experience, both online and in-store.

At the end of 2018, we announced a new consolidated, go-to-market strategy for all of our Pro initiatives, including our MRO business (formerly known as Interline), under "The Home Depot Pro" banner. The Home Depot Pro serves a number of business customers, including hotels, hospitals, apartment/condominium property managers, educational institutions, government agencies, commercial property managers and housing authorities. With The Home Depot Pro, Pros have access to a comprehensive offering that includes a combination of our vast store network, a best-in-class dedicated sales force, quality and affordable products from trusted brands, an extensive delivery network, and online business solutions that comprise our Pro ecosystem. Within this Pro ecosystem, we also provide specialized programs such as an expanded MRO assortment, inventory management solutions, custom product offerings, in-store Pro desk and Pro services, and enhanced credit programs. We also provide and are continuously working to improve our delivery options for Pros, including pick up in-store, direct to job site delivery, or ship-to home, to allow us to deliver when, where and how our customers demand. Online, with our B2B website, our Pros receive a personalized experience based on their business, their needs, their industry, and their purchasing behavior.

Pro customers are not one-size-fits-all, and The Home Depot Pro offers the level of value-added services that our diverse Pro customers demand. Our Pro loyalty program, Pro Xtra, provides Pros with benefits related to useful business services, exclusive product offers, and a purchase monitoring tool to enable receipt lookup and job tracking of purchases across all forms of payment. We will continue to invest in the Pro customer experience to provide the services, solutions, support, and online tools they need to grow their businesses.

Intersecting our DIY customers and our Pros are our DIFM customers. These customers are typically home owners who engage with Pros to complete their project or installation, instead of completing the project or installation themselves. DIFM customers can purchase a variety of installation services in our stores, online, or in their homes through in-home consultations. Our installation programs include many categories, such as flooring, cabinets and cabinet makeovers, countertops, furnaces and central air systems, and windows. We believe that changing demographics are increasing the demand for our installation services, particularly for our "baby boomer" customers who may have historically been DIY customers but who are now looking for someone to complete a project for them. We also believe our focus on serving the Pros who perform services for our DIFM customers will help us drive higher product sales.

We help our customers finance their projects by offering PLCC products through third-party credit providers. Our PLCC program includes other benefits, such as a 365-day return policy and, for our Pros, commercial fuel rewards and extended payment terms. In fiscal 2019, our customers opened approximately 4.8 million new The Home Depot private label credit accounts, and at the end of fiscal 2019 the total number of The Home Depot active account holders was approximately 16.7 million. PLCC sales accounted for approximately 23% of net sales in fiscal 2019.

We strive to provide an outstanding customer experience by putting customers first and taking care of our associates. Our customer experience begins with excellent customer service, and our associates are key to delivering on that experience. Our goal is to remove complexity and inefficient processes from the stores to allow our associates to focus on our customers and make working at The Home Depot a better experience.

To this end, we have continued to focus on freight handling capabilities as part of a multi-year, end-to-end initiative to optimize how product flows from suppliers to our shelves. Among other benefits, this initiative improves on-shelf availability of products for customers while decreasing the amount of time a store associate spends locating product on the receiving dock or in overhead storage. Our overhead management application on our FIRST phones helps associates locate product stored in overhead storage quickly and accurately, saving time, improving the customer experience, and assisting with inventory management. As part of our strategic investments, we have rolled out our new order management system, “Order Up,” which consolidates certain of our existing legacy systems into a simple and intuitive user interface that requires minimal training and significantly decreases associate time required to create, sell, manage and edit orders. We have also continued to leverage the enhanced labor model we launched in fiscal 2018 to better align associate activity with customer needs, shifting from a model based on the number of transactions to one that correlates to the specific volume of activity within each store down to the department level. This change allows us to better allocate our workforce to provide a best-in-class customer experience. In addition, in fiscal 2019 we expanded our in-aisle mobile learning solution to all departments to further enhance our store associates’ learning and development and aid them in assisting customers. This application, which is on the FIRST phone, enables associates to integrate training into their everyday workstream as well as answer questions and assist customers in real time.

For our Pro sales associates, we have provided a number of tools aimed at helping them to better understand their top Pro customers. Our MyView system allows our Pro sales associates to access customer data and information, so they can proactively work with our Pro customers and determine how we can better serve them.

At the end of fiscal 2019, we employed approximately 415,700 associates, of whom approximately 29,500 were salaried, with the remainder compensated on an hourly basis. Our culture and values promote ongoing investment in our associates. To attract, reward, and retain qualified associates, we seek to maintain competitive wages in each market we serve, offer comprehensive benefits geared towards helping associates through various life experiences, and provide career growth and development opportunities that make working at The Home Depot a more rewarding experience. We also have a number of programs to recognize stores and individual associates for exceptional customer service. We measure associate satisfaction and engagement regularly through associate surveys and drive enhancements based on the feedback we receive. We believe that our employee relations are very good.

Interconnected Experience: Connect Stores to Online, and Online to Stores

Our customers are shopping and interacting with us differently today than they did several years ago. As a result, we have taken a number of steps to provide our customers with a seamless and frictionless interconnected shopping experience across our stores, online, on the job site, and in their homes.

We do not view the customer experience as a specific transaction; rather, we believe it encompasses an entire process from inspiration and know-how, to purchase and fulfillment, and to post-purchase care and support. From the inspirational point of the purchase journey to providing product know-how, we are investing in the infrastructure and processes needed to deliver the most relevant marketing messages to our customers based upon what is important for them today. Customers desire more personalized messaging, so we are focusing on connecting marketing activities with the online and in-store experiences to create a seamless series of contacts across channels. Doing this well provides tremendous value to the customer, which in turn drives positive business results.

Our stores remain the hub of our business, and we are investing to improve the customer shopping experience through easier navigation and increasing the convenience and speed of checkout. For several years, our associates have used our FIRST phones to help expedite the online order checkout process, locate products in the aisles and online, and check inventory on hand. To improve the customer’s experience in our stores, we have also empowered our customers with additional self-help tools, including mobile app-enabled store navigation. Our app provides store-specific maps, which allow customers to pinpoint the exact location of an item on their mobile devices. As part of our strategic investments, we have made significant progress with the implementation of our wayfinding sign and store refresh package, with over 1,400 of our U.S. stores completed by the end of fiscal 2019. This package includes new, more intuitive signage, better lighting, and other store enhancements. In fiscal 2019, we also continued the roll out of our re-designed front end area, including reconfigured service desks, optimized layouts in all checkout areas, and expanded and enhanced self-checkout options, as well as the addition of self-service lockers at the front entrance to offer convenient pick up of online orders. We believe these investments are driving higher customer satisfaction scores.

The enhanced store experience is complemented by our continued investments in our website and mobile apps to drive a more interconnected digital customer experience. Enhancements to our digital properties are critical for our increasingly interconnected customers, who research products online and check available inventory before going into one of our stores to view the products in person or talk to an associate and then make their purchase in store or online. While in the store, customers may also go online to access ratings and reviews, compare prices, view our extended assortment and purchase products. Our investment in digital price labels for our appliance department has enabled us to incorporate ratings from the digital world into the store shopping experience, enhancing the overall customer experience in the category.

We believe that by connecting our stores to online and online to our stores, we drive sales not just in-store but also online. Our focus on improving search capabilities, site functionality, category presentation, product content, speed to checkout, and enhanced fulfillment options has yielded higher traffic, better conversion and continued sales growth. To create an enhanced customer experience, we have been expanding our use of technology, including advanced data science. We have also continued to improve our e-commerce platform with a goal of driving a more personalized customer experience, as discussed above.

Connect Products and Services to Customer Needs

We strive to be the number one retailer in product authority in home improvement by delivering product innovation, assortment and value and by offering a range of home improvement services. In fiscal 2019, we continued to invest in merchandising resets in our stores to refine assortments, introduce a wide range of innovative new products to our DIY and Pro customers, and improve visual merchandising to drive a better shopping experience. At the same time, we remain focused on offering everyday values in our stores and online. To help our merchandising organization keep pace with changing customer expectations and expanding desire for innovation, localization and personalization, we are investing in tools to better leverage our data and drive a deeper level of collaboration with supplier partners. As a result, we have continued to focus on enhanced merchandising information technology tools to help us to build an interconnected shopping experience that is tailored to our customers' personas, shopping context, and location; ensure we have the best value in the market; and optimize our product assortments.

A typical The Home Depot store stocks approximately 30,000 to 40,000 items during the year, including both national brand name and proprietary products. Our online product offerings complement our stores by serving as an extended aisle, and we offer a significantly broader product assortment through our websites, including homedepot.com; blinds.com, our online site for custom window coverings; and thecompanystore.com, our online site for textiles and décor products. We leverage our digital platforms to drive incremental growth from new and adjacent categories like HD Home, pool and workwear. We also routinely use our merchandising tools to refine our online assortment to balance the extended choice with a more curated offering.

In fiscal 2019, we introduced a number of innovative and distinctive products to our customers. Examples of these new products include the Cub Cadet® Ultima™ ZT1 zero turn mower, the DeWalt Atomic 20V platform, ReVent® bath fans, Jeld-Wen® fiberglass folding patio doors, the Rust-Oleum® HOME Interior Floor Coating System, Behr Ultra™ Scuff Defense™ Stain Blocking Paint & Primer in One, and the Setra™ kitchen faucet with Kohler® Konnect™ and voice-activated technology.

During fiscal 2019, we continued to offer value to our customers through a wide range of our proprietary and exclusive brands and products. Highlights of these offerings include Husky® products, including 144-position tight-fit ratchet sets and storage solutions; Everbilt® products; Hampton Bay® products, including cordless stock blinds; the GE® Smart Whole House water filtration system; Glacier Bay® bath fixtures and toilets, including sensor faucets and the Power Flush toilet; LifeProof® flooring, including rigid core vinyl plank flooring and new waterproof bamboo; Philips™ Smart Wi-Fi LED bulbs; Vigoro® lawn care products such as landscape fabric; Werner® 5-in-1 multi-position ladders; and RIDGID® and Ryobi® power tools. We will continue to assess our merchandising departments and product lines for opportunities to expand the assortment of products offered within The Home Depot's portfolio of proprietary and exclusive brands.

We also offer a number of services for our customers. As noted above, we provide a number of special programs for our Pro customers to meet their particular needs, and for our DIY and DIFM customers, we provide a number of installation services. We also provide tool and equipment rentals at over 1,200 locations across the U.S. and Canada, providing value and convenience for both our Pro and DIY customers. As part of our strategic investment program, we are investing in more space, more tools, and better technology to improve the customer experience and continue to grow this differentiated service offering.

Connect Product to Shelf, Site and Customer

We continue to drive productivity and efficiency by building best-in-class competitive advantages in our information technology and supply chain. We recognize that our customers' expectations are changing rapidly and that our supply chain needs to be responsive to their expectations for how, when and where they choose to receive our products and services. As part of our One Home Depot initiative, we are investing approximately $1.2 billion in the multi-year development of our One Supply Chain network, which is designed to continue to improve productivity and connectivity across our supply chain platforms to achieve the fastest, most efficient delivery capabilities in home improvement. Our efforts are focused on ensuring product availability and increasing the speed and reliability of delivery for our customers while managing our costs, which results in higher returns for our shareholders.

We centrally forecast and replenish over 98% of our store products through sophisticated inventory management systems and utilize a network of over 200 distribution centers to serve both our stores' and customers' needs. This network includes multiple distribution center platforms in the U.S., Canada, and Mexico tailored to meet the needs of our stores and customers based on the types of products, location, transportation, and delivery requirements. These platforms primarily include rapid deployment centers, stocking distribution centers, bulk distribution centers, and direct fulfillment centers. As part of our investment in One Supply Chain, we have invested to further automate and mechanize our rapid deployment center network to drive efficiency and faster movement of product.

We are also expanding our fulfillment network, investing in approximately 150 new fulfillment facilities to drive speed and reliability of delivery for customers and help us meet our goal of reaching 90% of the U.S. population with same or next day delivery for extended home improvement and MRO product offerings, including big and bulky goods. These facilities include additional direct fulfillment centers, which deliver product directly to customers, and market delivery operations, or MDOs, which function as local hubs to consolidate freight for dispatch to customers for the final mile of delivery, with a focus on items like appliances. We are also adding flatbed distribution centers, which handle large items like lumber that are transported on flatbed trucks, and market delivery centers, which are focused on distribution of MRO products and fast-turning store-based products. As of the end of fiscal 2019, we have opened at least one of each of these four major types of fulfillment facilities and will continue to build out our fulfillment network over the next few years.

In addition to our distribution centers, we leverage our almost 2,000 U.S. stores as a network of convenient customer pick-up, return, and delivery fulfillment locations. Our real estate footprint provides a distinct structural and competitive advantage. For customers who shop online and wish to pick-up or return merchandise at, or have merchandise delivered from, our U.S. stores, we have fully implemented our four interconnected retail programs, BOSS, BOPIS, BODFS, and BORIS, which we believe provide us with a competitive advantage. As of the end of fiscal 2019, approximately 50% of our U.S. online orders were picked up in the store. We also continue to focus on developing new capabilities to improve both efficiency and customer experience in our store delivery program.

A key component of our strategy is enabled through our technology portfolio, which consists of a network of systems that help us centrally manage customer orders and optimize where, when and how we fulfill them in order to maximize speed, efficiency, and the customer's experience. During fiscal 2019, we continued to improve our customer order management platform, or COM, and our delivery management system, which substantially improves our ability to sell and execute deliveries from our stores.

Innovate Our Business Model and Value Chain

In the changing retail environment, we must increase our investments to enhance the interconnected customer experience and position our Company for the future. Our customers view us as one Home Depot and expect us to function in an interconnected, seamless manner. To fully realize the One Home Depot experience, we will continue to connect the various aspects of our business and leverage our scale. We will also invest in our physical locations, our digital properties, our associates, products and innovation, our Pro and DIY customers, our services business, and our supply chain. Underlying all of these investments is our continued investment in information technology, which provides the backbone of the One Home Depot experience.

We continue to focus on driving productivity throughout the business. This process includes lowering our costs and reinvesting in the business to drive higher sales, creating what we refer to as a virtuous cycle. We support a cycle of productivity through technology development, improved processes, and simplified systems, driving productivity and speed across the value chain. This virtuous cycle has allowed us to improve the customer experience, increase our competitiveness in the market, increase sales, and deliver shareholder value.

Our strategy to create the One Home Depot experience is driven by our desire to create value for all stakeholders, including our customers, our associates, our supplier partners, the communities we serve, and our shareholders. We are accelerating our investments in the business within our disciplined approach to capital allocation. Our first use of cash has been and will continue to be investing in our business, with use of the remainder guided by our shareholder return principles:

- *Dividend Principle.* We look to increase our dividend every year as we grow earnings.

- *Return on Invested Capital Principle.* Our goal is to maintain a high return on invested capital, benchmarking all uses of excess liquidity against the value created for our shareholders through share repurchases.
- *Share Repurchase Principle.* After meeting the needs of the business, we will look to return excess cash to shareholders in the form of share repurchases.

In fiscal 2019, we drove higher returns on invested capital, which allowed us to return value to shareholders through $7.0 billion in share repurchases and $6.0 billion in cash dividends, as discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Competition

Our industry is highly competitive, very fragmented, and evolving. As a result, we face competition for our products and services from a variety of retailers, suppliers, and service providers, ranging from traditional brick-and-mortar, to multichannel, to exclusively online. In each of the markets we serve, there are a number of other home improvement retailers; electrical, plumbing and building materials supply houses; and lumber yards. With respect to some products and services, we also compete with specialty design stores, showrooms, discount stores, local, regional and national hardware stores, paint stores, mail order firms, warehouse clubs, independent building supply stores, MRO companies, home décor retailers, and other retailers, as well as with providers of home improvement services and tool and equipment rental.

We compete, both in-store and online, primarily based on customer experience, price, quality, availability, product assortment, and delivery options. With respect to our stores, we also compete based on store location and appearance as well as presentation of merchandise. Further, online and multichannel retailers are increasingly focusing on delivery services, with customers seeking faster and/or guaranteed delivery times, as well as low-price or free shipping. Our ability to be competitive on delivery times and delivery costs depends on many factors, including the success of our investments in One Supply Chain.

Sustainability Efforts

Our environmental, social and governance efforts are focused on taking care of our people and communities while operating sustainably, The Home Depot is committed to sustainable business practices – from the products that we offer to our customers, to the environmental impact of our operations, to our sourcing activities, to taking care of our associates, to our involvement within the communities in which we do business. We believe these efforts continue to be successful in creating value for our customers, shareholders, associates and communities.

Environmentally Preferred Products and Programs. We offer a growing selection of environmentally preferred products that support sustainability and help our customers save energy, water and money. Through our Eco Options® Program introduced in 2007, we have helped our customers more easily identify products that meet specifications for energy efficiency, water conservation, healthy home, clean air and sustainable forestry. As of the end of fiscal 2019, our Eco Options® Program included over 25,000 products. Through this program, we sell ENERGY STAR® certified appliances, LED light bulbs, tankless water heaters, and other products that enable our customers to save on their utility bills. We estimate that in fiscal 2019 we helped customers save over $1.2 billion in electricity costs through sales of energy-saving products. We also estimate our customers saved over 52 billion gallons of water resulting in over $650 million in water bill savings in fiscal 2019 through the sales of our WaterSense®-labeled bath faucets, showerheads, aerators, toilets, and irrigation controllers.

In 2017, we announced customer energy, greenhouse gas emissions, and water goals, anchored by our sale of ENERGY STAR® and WaterSense® products. We are committed to providing innovative products that, through proper use, will help to reduce North American customers' electricity costs by more than $2.8 billion; greenhouse gas emissions by 20 million metric tons; and water consumption by 250 billion gallons by 2020. We have a comprehensive wood purchasing policy that requires FSC certification for wood products from the Amazon basin, Congo basin, Papua New Guinea, and the Solomon Islands. Our 2019 Responsibility Report, available on our website at https://corporate.homedepot.com/responsibility, describes these efforts as well as many of our other environmentally preferred products that promote energy efficiency, water conservation, clean air, and a healthy home.

We continue to offer store recycling programs in the U.S., such as an in-store CFL bulb recycling program launched in 2008. This service is offered to customers free of charge and is available in all U.S. stores. We also maintain an in-store rechargeable battery recycling program. Launched in 2001 and currently done in partnership with Call2Recycle, this program is also available to customers free of charge in all U.S. stores. Through our recycling programs, in fiscal 2019 we helped recycle over 800,000 pounds of CFL bulbs and over 1 million pounds of rechargeable batteries. Since program inception, we have helped recycle over 11 million pounds of rechargeable batteries. In fiscal 2019, we also recycled over 235,000 lead acid batteries collected from our customers under our lead acid battery exchange program, as well as over 250,000 tons of cardboard through a nationwide cardboard recycling program across our U.S. operations. We believe our environmentally-preferred product selection and our recycling efforts drive sales, which in turn benefits our shareholders, in addition to our customers, the communities in which we work and live, and the environment.

Commitment to Sustainability and Environmentally Responsible Operations. The Home Depot also focuses on sustainable operations and is committed to conducting business in an environmentally responsible manner. This commitment impacts all areas of our operations, including energy usage, supply chain and packaging, and store construction and maintenance. In 2015, we announced two major sustainability commitments for 2020. Our first goal is to reduce our U.S. stores' energy use by 20% over 2010 levels, and our second goal is to produce and procure, on an annual basis, 135 megawatts of energy for our stores through renewable or alternate energy sources, such as wind, solar and fuel cell technology. As of the end of fiscal 2019, we have 47 stores with solar rooftop power and 204 fuel cell systems that are either operational or in development, which puts us on track to exceed both of our goals before the end of 2020. In 2018, we set a science-based target goal in connection with our annual CDP reporting (discussed below) with commitments to a 2.1% annual reduction in carbon emissions. Our goal is to achieve a 40% reduction by 2030 and a 50% reduction by 2035. We are committed to implementing strict operational standards that establish energy efficient operations in all of our U.S. facilities and continuing to invest in renewable and alternative energy. Additionally, we implemented a rainwater reclamation project in our stores in 2010. As of the end of fiscal 2019, 157 of our stores used reclamation tanks to collect rainwater and condensation from HVAC units and garden center roofs, which is in turn used to water plants in our outside garden centers. Our 2019 Responsibility Report provides more information on these and other sustainability efforts throughout our operations.

Awards and Recognition. Our commitment to corporate sustainability has resulted in a number of environmental awards and recognitions. Since 2008, we have received 21 significant awards from three EPA programs. Multiple times over these years, the ENERGY STAR® division has named us "Retail Partner of the Year – Sustained Excellence" for our overall excellence in energy efficiency, and we have received the WaterSense® Sustained Excellence Award for our overall excellence in water efficiency. We have also received the EPA's "SmartWay Excellence Award," which recognizes The Home Depot as an industry leader in freight supply chain environmental performance and energy efficiency.

We participate in the CDP reporting process. CDP is an independent, international, not-for-profit organization providing a global system for companies and cities to measure, disclose, manage and share environmental information. In January 2020, for the second year in a row, we received a score of "A" from CDP, reflecting leadership and a high level of action on climate change mitigation, adaptation and transparency.

Sourcing and Quality Assurance

We maintain a global sourcing program to obtain high-quality and innovative products directly from manufacturers around the world. During fiscal 2019, in addition to our U.S. sourcing operations, we maintained sourcing offices in Mexico, Canada, China, India, Vietnam and Europe. To ensure that suppliers adhere to our high standards of social and environmental responsibility, we also have a global responsible sourcing program. Our suppliers are contractually obligated to ensure that their products comply with applicable international, federal, state and local laws. All of our vendors and service providers must also comply with our responsible sourcing standards, which cover a variety of expectations across multiple areas of social compliance, including supply chain transparency, sources of supply, and child and forced labor. In addition, we have both quality assurance and engineering resources dedicated to establishing criteria and overseeing compliance with safety, quality and performance standards for our proprietary branded products, including conducting factory audits and compliance visits. Our 2019 Responsible Sourcing Report, available on our website at https://corporate.homedepot.com/responsibility/sourcing-responsibility, provides more information about this program.

Safety

We are committed to maintaining a safe shopping and working environment for our customers and associates. We are dedicated to ensuring the health and safety of our customers and associates, by empowering trained EH&S associates to evaluate, develop, implement and enforce policies, processes and programs on a Company-wide basis. Our EH&S policies are woven into our everyday operations and are part of The Home Depot culture. Some common program elements include: daily store inspection checklists (by department); routine follow-up audits from our store-based safety team members and regional, district and store operations field teams; equipment enhancements and preventative maintenance programs to promote physical safety; departmental merchandising safety standards; training and education programs for all associates, with varying degrees of training provided based on an associate’s role and responsibilities; and awareness, communication and recognition programs designed to drive operational awareness and an understanding of EH&S matters.

Intellectual Property

Our business has one of the most recognized brands in North America. As a result, we believe that The Home Depot® trademark has significant value and is an important factor in the marketing of our products, e-commerce, stores and business. We have registered or applied for registration of trademarks, service marks, copyrights and internet domain names, both domestically and internationally, for use in our business, including our proprietary brands such as HDX®, Husky®, Hampton Bay®, Home Decorators Collection®, Glacier Bay®, Vigoro®, Everbilt® and Lifeproof®. We also maintain patent portfolios relating to some of our products and services and seek to patent or otherwise protect innovations we incorporate into our products or business operations.

Seasonality

Our business is subject to seasonal influences. Generally, our highest volume of sales occurs in our second fiscal quarter, and the lowest volume occurs either during our first or fourth fiscal quarter.

Available Information

Our internet website is www.homedepot.com. We make available on the Investor Relations section of our website, free of charge, our Annual Reports to shareholders, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and Forms 3, 4 and 5, and amendments to those reports, as soon as reasonably practicable after filing such documents with, or furnishing such documents to, the SEC.

We include our website addresses throughout this report for reference only. The information contained on our websites is not incorporated by reference into this report.

Other Financial Information

For information on key financial highlights, including historical revenues, profits and total assets, see the "Selected Financial Data" on page F-1 of this report and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 1A. Risk Factors.

Our business, results of operations, and financial condition are subject to numerous risks and uncertainties. In connection with any investment decision with respect to our securities, you should carefully consider the following risk factors, as well as the other information contained in this report and our other filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. Should any of these risks materialize, our business, results of operations, financial condition and future prospects could be negatively impacted, which in turn could affect the trading value of our securities. You should read these Risk Factors in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and our consolidated financial statements and related notes in Item 8.

Strong competition could adversely affect prices and demand for our products and services and could decrease our market share.

Our industry is highly competitive, very fragmented, and evolving. As a result, we face competition for our products and services from a variety of retailers, suppliers, and service providers, ranging from traditional brick-and-mortar, to multichannel, to exclusively online. The internet facilitates competitive entry, price transparency, and comparison shopping, increasing the level of competition we face. In each of the markets we serve, there are a number of other home improvement retailers; electrical, plumbing and building materials supply houses; and lumber yards. With respect to some products and services, we also compete with specialty design stores, showrooms, discount stores, local, regional and national hardware stores, paint stores, mail order firms, warehouse clubs, independent building supply stores, MRO companies, home décor retailers, and other retailers, as well as with providers of home improvement services and tool and equipment rental.

We compete, both in-store and online, primarily based on customer experience, price, quality, availability, product assortment, and delivery options. With respect to our stores, we also compete based on store location and appearance as well as presentation of merchandise. Further, online and multichannel retailers are increasingly focusing on delivery services, with customers seeking faster and/or guaranteed delivery times, as well as low-price or free shipping. Our ability to be competitive on delivery times and delivery costs depends on many factors, including the success of our investments in One Supply Chain, and our failure to successfully manage these factors and offer competitive delivery options could negatively impact the demand for our products and our profit margins.

We use our marketing, advertising and promotional programs to drive customer traffic and compete more effectively, and we must regularly assess and adjust our efforts to address changes in the competitive landscape. Intense competitive pressures from one or more of our competitors, such as through aggressive promotional pricing or liquidation events, or our inability to adapt effectively and quickly to a changing competitive landscape, could adversely affect our prices, our margins, or demand for our products and services. If we are unable to timely and appropriately respond to these competitive pressures, including through the delivery of a superior customer experience or maintenance of effective marketing, advertising or promotional programs, our market share and our financial performance could be adversely affected.

We may not timely identify or effectively respond to consumer needs, expectations or trends, which could adversely affect our relationship with customers, our reputation, the demand for our products and services, and our market share.

The success of our business depends in part on our ability to identify and respond promptly to evolving trends in demographics; consumer preferences, expectations and needs; and unexpected weather conditions, public health issues (including pandemics and quarantines) or natural disasters, while also managing appropriate inventory levels in our stores and distribution or fulfillment centers and maintaining an excellent customer experience. It is difficult to successfully predict the products and services our customers will demand. As our customers begin to expect a more personalized experience, our ability to collect, use and protect relevant customer data is important to our ability to effectively meet their expectations. Our ability to collect and use that data, however, is subject to a number of external factors, including the impact of legislation or regulations governing data privacy and security. In addition, each of our primary customer groups has different needs and expectations, many of which evolve as the demographics in a particular customer group change. We also need to offer more localized assortments of our merchandise to appeal to local cultural and demographic tastes within each customer group. If we do not successfully differentiate the shopping experience to meet the individual needs and expectations of or within a customer group, we may lose market share with respect to those customers.

Customer expectations about the methods by which they purchase and receive products or services are also becoming more demanding. Customers routinely use technology and a variety of electronic devices and digital platforms to rapidly compare products and prices, read product reviews, determine real-time product availability, and purchase products. Once products are purchased, customers are seeking alternate options for delivery of those products, and they often expect quick, timely, and low-price or free delivery. We must continually anticipate and adapt to these changes in the purchasing process. We have our BOSS, BOPIS, BODFS and direct fulfillment delivery options, but we cannot guarantee that these or future programs will be maintained and implemented successfully or that we will be able to meet customer expectations on delivery times, options and costs. Customers are also using social media to provide feedback and information about our Company and products and services in a manner that can be quickly and broadly disseminated. To the extent a customer has a negative experience and shares it over social media, it may impact our brand and reputation.

Further, we have an aging store base that requires maintenance, investment, and space reallocation initiatives to deliver the shopping experience that our customers desire. Our investments in our stores may not deliver the relevant shopping experience our customers expect. We must also maintain a safe store environment for our customers and associates, as well as to protect against loss or theft of our inventory (also called “shrink”). Higher rates of shrink, which we have recently experienced, can require operational changes that may increase costs and impact the customer experience.

Failure to improve and maintain our stores, utilize our store space effectively, and offer a safe shopping environment; to provide a compelling online presence; to timely identify or respond to changing consumer preferences, expectations and home improvement needs; to maintain appropriate inventory; to provide quick and low-price or free delivery alternatives; to differentiate the customer experience for our primary customer groups; and to effectively implement an increasingly localized merchandising assortment could adversely affect our relationship with customers, our reputation, the demand for our products and services, and our market share.

The implementation of our store, interconnected retail, supply chain and technology initiatives could disrupt our operations in the near term, and these initiatives might not provide the anticipated benefits or might fail.

We have been substantially increasing our investments to create the One Home Depot experience, including significant investments over several years to build One Supply Chain. These initiatives are designed to streamline our operations to allow our associates to continue to provide high-quality service to our customers; simplify customer interactions; provide our customers with a more interconnected retail experience; and create the fastest, most efficient delivery network for home improvement products. Failure to choose the right investments and implement them in the right manner and at the right pace could disrupt our operations. The One Home Depot initiative will require significant investment in our operations and systems, as well as the development and execution of new processes, systems and support. The One Supply Chain initiative also involves significant real estate projects as we expand our distribution network. If we are unable to effectively manage the volume, nature and cost of these investments, projects and changes, our business operations and financial results could be materially and adversely affected. The cost and potential problems, defects of design and interruptions associated with the implementation of these initiatives, including those associated with managing third-party service providers, employing new web-based tools and services, implementing new technology, implementing and restructuring support systems and processes, identifying appropriate facility locations, and addressing impacts on inventory levels, could disrupt or reduce the efficiency of our operations in the near term, lead to product availability issues, and impact profitability. Further, accomplishing these initiatives will require a substantial investment in additional information technology personnel and other specialized personnel. We may face significant competition in the market for these resources and may not be successful in our hiring efforts. In addition, our store and interconnected retail initiatives, One Supply Chain, and new or upgraded information technology systems might not provide the anticipated benefits, it might take longer than expected to complete the initiatives or realize the anticipated benefits, or the initiatives might fail altogether, each of which could adversely impact our competitive position and our financial condition, results of operations, or cash flows.

Our success depends upon our ability to attract, develop and retain highly qualified associates while also controlling our labor costs.

Our customers expect a high level of customer service and product knowledge from our associates. To meet the needs and expectations of our customers, we must attract, develop and retain a large number of highly qualified associates while at the same time controlling labor costs. Our ability to control labor costs is subject to numerous external factors, including market pressures with respect to prevailing wage rates, unemployment levels, and health and other insurance costs, as well as the impact of legislation or regulations governing labor relations, minimum wage, and healthcare benefits. In addition, to support our strategic initiatives, including One Supply Chain, and the related technology investments needed to implement our strategic investments, we must attract and retain a large number of skilled professionals, including technology professionals. The market for these professionals is increasingly competitive. An inability to provide wages and/or benefits that are competitive within the markets in which we operate could adversely affect our ability to retain and attract associates. Further, changes in market compensation rates may adversely affect our labor costs. In addition, we compete with other retail businesses for many of our associates in hourly positions, and we invest significant resources in training and motivating them to maintain a high level of job satisfaction. These positions have historically had high turnover rates, which can lead to increased training and retention costs, particularly in a competitive labor market. There is no assurance that we will be able to attract or retain highly qualified associates in the future.

A failure of a key information technology system or process could adversely affect our business.

We rely extensively on information technology systems to analyze, process, store, manage and protect transactions and data. Some of these systems are managed or provided by third-party service providers, including certain cloud platform providers. In managing our business, we also rely heavily on the integrity of, security of, and consistent access to, this operational and financial data for information such as sales, customer data, associate data, demand forecasting, merchandise ordering, inventory replenishment, supply chain management, payment processing, and order fulfillment. For these information technology systems and processes to operate effectively, we or our service providers must maintain and update them. Our systems and the third-party systems with which we interact are subject to damage or interruption from a number of causes, including power outages; computer and telecommunications failures; computer viruses; security breaches or data theft; cyber-attacks, including the use of malicious codes, worms, phishing, spyware, denial of service attacks, and ransomware; catastrophic events such as fires, floods, earthquakes, tornadoes, or hurricanes; acts of war or terrorism; and design or usage errors by our associates, contractors or third-party service providers. Although we and our third-party service providers seek to maintain our respective systems effectively and to successfully address the risk of compromise of the integrity, security and consistent operations of these systems, such efforts may not be successful. As a result, we or our service providers could experience errors, interruptions, delays or cessations of service in key portions of our information technology infrastructure, which could significantly disrupt our operations or impair data security, and be costly, time consuming and resource-intensive to remedy.

In addition, we are currently making, and expect to continue to make, substantial investments in our information technology systems and infrastructure, in certain cases with the assistance of strategic partners and other third-party service providers. These investments involve replacing existing systems with successor systems; outsourcing certain technology to third-party service providers; making changes to existing systems, including the migration of applications to the cloud; or designing or cost-effectively acquiring new systems with new functionality. These efforts can result in significant potential risks, including failure of the systems to operate as designed, potential loss or corruption of data, changes in security processes, cost overruns, implementation delays, disruption of operations, and the potential inability to meet business and reporting requirements. Any system implementation and transition difficulty may result in operational challenges, security failures, reputational harm, and increased costs that could adversely affect our business operations and results of operations.

Disruptions in our customer-facing technology systems could impair our interconnected retail strategy and give rise to negative customer experiences.

Through our information technology systems, we are able to provide an improved overall shopping and interconnected retail experience that empowers our customers to shop and interact with us from a variety of electronic devices and digital platforms. We use our digital platforms both as sales channels for our products and services and also as methods of providing inspiration, as well as product, project, and other relevant information to our customers to drive sales, regardless of whether they occur in-store or online. We have multiple online communities and knowledge centers that allow us to inform, assist and interact with our customers. The retail industry is continually evolving and expanding, and we must effectively respond to new developments and changing customer preferences with respect to an interconnected experience. We continually seek to enhance all of our online and digital properties to provide an attractive, user-friendly interface for our customers. Disruptions, delays, failures or other performance issues with these customer-facing technology systems, or a failure of these systems to meet our or our customers' expectations, could impair the benefits that they provide to our business and negatively affect our relationship with our customers.

Disruptions in our supply chain and other factors affecting the distribution of our merchandise could adversely impact our business.

A disruption within our logistics or supply chain network could adversely affect our ability to deliver inventory in a timely manner, which could impair our ability to meet customer demand for products and result in lost sales, increased supply chain costs, or damage to our reputation. Such disruptions may result from damage or destruction to our distribution centers; weather-related events; natural disasters; international trade disputes or trade policy changes or restrictions; tariffs or import-related taxes; third-party strikes, lock-outs, work stoppages or slowdowns; shortages of truck drivers; shipping capacity constraints; third-party contract disputes; supply or shipping interruptions or costs; military conflicts; acts of terrorism; public health issues, including pandemics or quarantines (such as the recent COVID-19 coronavirus outbreak); or other factors beyond our control. Any such disruption could negatively impact our financial performance or financial condition.

If our efforts to maintain the privacy and security of customer, associate, supplier and Company information are not successful, we could incur substantial costs and reputational damage and could become subject to litigation and enforcement actions.

Our business, like that of most retailers, involves the receipt, storage, management and transmission of customers' personal information, preferences, and payment card information, as well as other confidential information, such as personal information about our associates and our suppliers and confidential Company information. We also work with third-party service providers and vendors that provide technology, systems and services that we use in connection with the receipt, storage and transmission of this information. Our information systems, and those of our third-party service providers and vendors, are vulnerable to an increasing threat of continually evolving data protection and cybersecurity risks. Unauthorized parties have in the past gained access, and will continue to attempt to gain access to, these systems and data through fraud or other means of deceiving our associates, third-party service providers or vendors. Hardware, software or applications we develop or obtain from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. The methods used to obtain unauthorized access, disable or degrade service, or sabotage systems are also constantly changing and evolving and may be difficult to anticipate or detect for long periods of time. We have implemented and regularly review and update our systems, processes, and procedures to protect against unauthorized access to or use of data and to prevent data loss. However, the ever-evolving threats mean we and our third-party service providers and vendors must continually evaluate and adapt our respective systems and processes and overall security environment, as well as those of any companies we acquire. There is no guarantee that these measures will be adequate to safeguard against all data security breaches, system compromises or misuses of data. As we experienced in connection with the data breach we discovered in the third quarter of fiscal 2014, any significant compromise or breach of our data security, whether external or internal, or misuse of customer, associate, supplier or Company data, could result in significant costs, including costs to investigate and remediate, as well as lost sales, fines, lawsuits, and damage to our reputation.

In addition, the regulatory environment related to data privacy and cybersecurity is constantly changing, with new and increasingly rigorous requirements applicable to our business. The implementation of these requirements has also become more complex. Maintaining our compliance with those requirements, including the California Consumer Privacy Act (CCPA), may require significant effort and cost, require changes to our business practices, and limit our ability to obtain data used to provide a personalized customer experience. In addition, failure to comply with applicable requirements could subject us to fines, sanctions, governmental investigations, lawsuits or reputational damage.

We are subject to payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability, and potentially disrupt our business.

We accept payments using a variety of methods, including cash, checks, credit and debit cards, PayPal, our PLCCs, an installment loan program, trade credit, and gift cards, and we may offer new payment options over time. Acceptance of these payment options subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. These requirements may change over time or be reinterpreted, making compliance more difficult, costly, or uncertain. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could potentially disrupt our business. The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in our payments and payment processing systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. As a result, our business and operating results could be adversely affected.

Uncertainty regarding the housing market, economic conditions, political climate, public health issues, and other factors beyond our control could adversely affect demand for our products and services, our costs of doing business, and our financial performance.

Our financial performance depends significantly on the stability of the housing and home improvement markets, as well as general economic conditions, including changes in gross domestic product. Adverse conditions in or uncertainty about these markets, the economy or the political climate could adversely impact our customers' confidence or financial condition, causing them to decide against purchasing home improvement products and services, causing them to delay purchasing decisions, or impacting their ability to pay for products and services. Other factors beyond our control – including unemployment and foreclosure rates; inventory loss due to theft; interest rate fluctuations; fuel and other energy costs; labor and healthcare costs; the availability of financing; the state of the credit markets, including mortgages, home equity loans and consumer credit; weather; natural disasters; acts of terrorism or violence, including active shooter situations; public health issues, including pandemics and quarantines; and other conditions beyond our control – could further adversely affect demand for our products and services, our costs of doing business, and our financial performance.

For example, the recent pandemic caused by the novel coronavirus COVID-19 has led to work and travel restrictions within, to, and out of a number of countries and supply chain disruptions and delays. These restrictions and delays, which may expand depending on the progression of the pandemic, have impacted and may continue to impact suppliers and manufacturers of certain of our products. This may make it difficult for our suppliers to source and manufacture products in, and to export our products from, affected areas. As a result, we have faced and may continue to face delays or difficulty sourcing certain products, which could negatively affect our business and financial results. Even if we are able to find alternate sources for such products, they may cost more, which could adversely impact our profitability and financial condition. At this time, there is significant uncertainty relating to the potential effect of COVID-19 on our business and the costs that we may incur as a result. Infections have become more widespread, which may worsen the supply shortage or restrict third-party manufacturing or other operations. In response to the COVID-19 pandemic, we have canceled or shifted to virtual experiences for certain supplier and associate events and have shifted certain store support operations to remote or virtual, and we may deem it appropriate or advisable to take further similar actions in the future. We have shortened our customer-facing hours in all of our stores and temporarily closed our stores in Puerto Rico, and we may need to restrict access to or close certain of, or face labor shortages in, other stores or facilities, which could negatively impact productivity, sales, or operating expenses. We are taking steps in our stores to manage foot traffic to better protect our customers and associates. We have also expanded our paid time off policy to help alleviate some of the challenges our associates may be facing as a result of COVID-19, and we may face additional health insurance and labor-related costs. The pandemic may also reduce foot traffic in our stores or temporarily reduce demand for our products or services. In certain jurisdictions, we have had to cease sales of or delay commencement of certain services deemed “non-life-sustaining,” and other jurisdictions may impose similar requirements. Further, customers’ financial condition may be adversely impacted as a result of the impacts of COVID-19 and efforts taken to prevent its spread, which could result in reduced demand for our products and services. In addition, our continued access to external sources of liquidity depends on multiple factors, including the condition of debt capital markets, our operating performance, and maintaining strong credit ratings. If the impacts of the pandemic create disruptions or turmoil in the financial markets, or if rating agencies lower our credit ratings, it could adversely affect our ability to access the debt markets, our cost of funds, and other terms for new debt. Any of these occurrences may have a negative impact on our business, financial condition, results of operations, or cash flows.

Our business is subject to seasonal influences, and uncharacteristic or significant weather conditions, alone or together with natural disasters, as well as other catastrophic events, could impact our operations.

Natural disasters, such as hurricanes and tropical storms, fires, floods, tornadoes, and earthquakes; unseasonable, or unexpected or extreme weather conditions; acts of terrorism or violence, including active shooter situations; public health concerns, such as pandemics and quarantines; or similar disruptions and catastrophic events can affect consumer spending and confidence and consumers’ disposable income, particularly with respect to home improvement or construction projects, and could have an adverse effect on our financial performance. These types of events can also adversely affect our work force and prevent associates and customers from reaching our stores and other facilities. They can also, temporarily or on a long-term basis, disrupt or disable operations of stores, support centers, and portions of our supply chain and distribution network, including causing reductions in the availability of inventory and disruption of utility services. In addition, these events may affect our information systems, resulting in disruption to various aspects of our operations, including our ability to transact with customers and fulfill orders and to communicate with our stores. Unseasonable, unexpected or extreme weather conditions such as excessive precipitation, warm temperatures during the winter season, or prolonged or extreme periods of warm or cold temperatures could render a portion of our inventory incompatible with customer needs. As a consequence of these or other catastrophic or uncharacteristic events, we may experience interruption to our operations, increased costs, or losses of property, equipment or inventory, which would adversely affect our revenue and profitability.

If we fail to identify and develop relationships with a sufficient number of qualified suppliers, or if our suppliers experience financial difficulties or other challenges, our ability to timely and efficiently access products that meet our high standards for quality could be adversely affected.

We buy our products from suppliers located throughout the world. Our ability to continue to identify and develop relationships with qualified suppliers who can satisfy our high standards for quality and responsible sourcing, as well as our need to access products in a timely and efficient manner, is a significant challenge. Our ability to access products from our suppliers can be adversely affected by political instability, military conflict, acts of terrorism or violence, public health issues (including pandemics and quarantines), the financial instability of suppliers, suppliers’ noncompliance with applicable laws, trade restrictions, tariffs, currency exchange rates, any disruptions in our suppliers’ logistics or supply chain networks or information technology systems, and other factors beyond our or our suppliers’ control. If we are unable to access products to meet our customers’ demands and expectations in a timely and efficient manner, our sales and gross margin results may be adversely impacted.

If we are unable to effectively manage and expand our alliances and relationships with selected suppliers of both brand name and proprietary products, we may be unable to effectively execute our strategy to differentiate ourselves from our competitors.

As part of our focus on product differentiation, we have formed strategic alliances and exclusive relationships with selected suppliers to market products under a variety of well-recognized brand names. We have also developed relationships with selected suppliers to allow us to market proprietary products that are comparable to national brands. Our proprietary products differentiate us from other retailers, generally carry higher margins than national brand products, and represent a growing portion of our business. If we are unable to manage and expand these alliances and relationships or identify alternative sources for comparable brand name and proprietary products, we may not be able to effectively execute product differentiation, which may impact our sales and gross margin results.

Failure to achieve and maintain a high level of product and service quality and safety could damage our image with customers, expose us to litigation, and negatively impact our sales and results of operations.

Product and service quality issues could negatively impact customer confidence in our brands and our Company. If our product and service offerings do not meet applicable safety standards or our customers' expectations regarding safety or quality, we could experience lost sales and increased costs and be exposed to legal, financial and reputational risks, as well as governmental enforcement actions. Actual, potential or perceived product safety concerns, including health-related concerns, could expose us to litigation, as well as government enforcement actions, and result in costly product recalls and other liabilities. We seek but may not be successful in obtaining contractual indemnification and insurance coverage from our vendors. If we do not have adequate contractual indemnification or insurance available, such claims could have an adverse effect on our business, financial condition and results of operations. Even with adequate insurance and indemnification, our reputation as a provider of high quality products and services, including both national brand names and our proprietary products, could suffer, damaging our reputation and impacting customer loyalty. In addition, we and our customers have expectations around responsible sourcing. All of our vendors and service providers must comply with our responsible sourcing standards, which cover a variety of expectations across multiple areas of social compliance, including supply chain transparency, sources of supply, and child and forced labor. We have a responsible sourcing audit process, but we are also dependent on our vendors and service providers to ensure that the products and services we provide comply with our standards.

Our proprietary products subject us to certain increased risks, including regulatory, product liability, supplier relations, and reputational risks.

As we expand our proprietary product offerings, in addition to other product-related risks discussed herein, we may become subject to increased risks due to our greater role in the design, manufacture, marketing and sale of those products. The risks include greater responsibility to administer and comply with applicable regulatory requirements, increased potential product liability and product recall exposure, and increased potential reputational risks related to the responsible sourcing of those products. To effectively execute on our product differentiation strategy, we must also be able to successfully protect our proprietary rights and successfully navigate and avoid claims related to the proprietary rights of third parties. In addition, an increase in sales of our proprietary products may adversely affect sales of our suppliers' products, which in turn could adversely affect our relationships with certain of our suppliers. Any failure to appropriately address some or all of these risks could damage our reputation and have an adverse effect on our business, results of operations, and financial condition.

If we are unable to effectively manage our installation services business, we could suffer lost sales and be subject to fines, lawsuits and reputational damage, or the loss of our general contractor licenses.

We act as a general contractor to provide installation services to our DIFM customers through professional third-party installers. As such, we are subject to regulatory requirements and risks applicable to general contractors, which include management of licensing, permitting and quality of work performed by our third-party installers. We have established processes and procedures to manage these requirements and ensure customer satisfaction with the services provided by our third-party installers. However, if we fail to manage these processes effectively or to provide proper oversight of these services, we could suffer lost sales, fines, lawsuits, and governmental enforcement actions for violations of regulatory requirements, as well as for property damage or personal injury. In addition, we may suffer damage to our reputation or the loss of our general contractor licenses, which could adversely affect our business.

Our strategic transactions involve risks, which could have an adverse impact on our financial condition and results of operation, and we may not realize the anticipated benefits of these transactions.

We regularly consider and enter into strategic transactions, including mergers, acquisitions, investments, alliances, and other growth and market expansion strategies, with the expectation that these transactions will result in increases in sales, cost savings, synergies and various other benefits. Assessing the viability and realizing the benefits of these transactions is subject to significant uncertainty. For each of our acquisitions, we need to successfully integrate the target company's products, services, associates and systems into our business operations. Integration can be a complex and time-consuming process, and if the integration is not fully successful or is delayed for a material period of time, we may not achieve the anticipated synergies or benefits of the acquisition. Furthermore, even if the target companies are successfully integrated, the acquisitions may fail to further our business strategy as anticipated, expose us to increased competition or challenges with respect to our products or services, and expose us to additional liabilities. Any impairment of goodwill or other intangible assets acquired in a strategic transaction may reduce our earnings.

Our costs of doing business could increase as a result of changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations.

We are subject to various federal, state and local laws and regulations that govern numerous aspects of our business. In recent years, a number of new laws and regulations have been adopted, and there has been expanded enforcement of certain existing laws and regulations by federal, state and local agencies. These laws and regulations, and related interpretations and enforcement activity, may change as a result of a variety of factors, including political, economic or social events. Changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations governing minimum wage or living wage requirements; the classification of exempt and non-exempt employees; the distinction between employees and contractors; other wage, labor or workplace regulations; healthcare; data privacy and cybersecurity; the sale and pricing of some of our products; transportation; logistics; international trade; supply chain transparency; taxes; unclaimed property; energy costs and consumption; or environmental matters, including with respect to our installation services business, could increase our costs of doing business or impact our operations.

In fiscal 2017, Congress enacted the Tax Act, which significantly changed how the U.S. taxes corporations. During fiscal 2018 and fiscal 2019, additional guidance related to the Tax Act was issued by the U.S. Department of the Treasury and the IRS. The Tax Act requires complex computations to be performed that were not previously required under U.S. tax law, significant judgments to be made in interpretation of the provisions of the Tax Act, significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Department of the Treasury, the IRS, and other standard-setting bodies could interpret or issue guidance on how provisions of the Tax Act will be applied or otherwise administered that is different from our interpretations. Further, in addition to uncertainties that continue to exist in terms of how U.S. states will react to the Tax Act, recently enacted changes in foreign countries within which we operate could have additional impacts on our effective tax rate.

If we cannot successfully manage the unique challenges presented by international markets, we may not be successful in our international operations and our sales and profitability may be negatively impacted.

Our ability to successfully conduct retail operations in, and source products and materials from, international markets is affected by many of the same risks we face in our U.S. operations, as well as unique costs and difficulties of managing international operations. Our international operations, including any expansion in international markets, may be adversely affected by local laws and customs, U.S. laws applicable to foreign operations and other foreign legal and regulatory constraints, as well as political, social and economic conditions. Risks inherent in international operations also include, among others, potential adverse tax consequences; international trade disputes, trade policy changes or potential tariffs and other import-related taxes and controls; greater difficulty in enforcing intellectual property rights; limitations on access to ports; risks associated with the Foreign Corrupt Practices Act and local anti-bribery law compliance; and challenges in our ability to identify and gain access to local suppliers. For example, trade tensions between the U.S. and China have led to a series of significant tariffs on the importation of certain product categories. As a significant portion of our retail products are sourced, directly or indirectly, outside of the U.S., major changes in tax or trade policies, tariffs or trade relations could adversely impact the cost of, demand for, and profitability of retail product sales in our U.S. locations. Other countries may also change their business and trade policies in anticipation of or in response to increased import tariffs and other changes in U.S. trade policy and regulations. In addition, our operations in international markets create risk due to foreign currency exchange rates and fluctuations in those rates, which may adversely impact our sales and profitability.

The inflation or deflation of commodity prices could affect our prices, demand for our products, our sales and our profit margins.

Prices of certain commodity products, including lumber and other raw materials, are historically volatile and are subject to fluctuations arising from changes in domestic and international supply and demand, labor costs, competition, market speculation, government regulations, tariffs and trade restrictions, and periodic delays in delivery. Rapid and significant changes in commodity prices may affect the demand for our products, our sales and our profit margins.

We may incur property, casualty or other losses not covered by our insurance.

We are predominantly self-insured for a number of different risk categories, such as general liability (including product liability), workers' compensation, employee group medical, automobile claims, and network security and privacy liability, with insurance coverage for certain catastrophic risks. The types and amounts of insurance may vary from time to time based on our decisions with respect to risk retention and regulatory requirements. The occurrence of significant claims, a substantial rise in costs to maintain our insurance, or the failure to maintain adequate insurance coverage could have an adverse impact on our financial condition and results of operations.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results or financial condition.

GAAP and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, such as asset impairment, inventories, lease obligations, self-insurance, vendor allowances, tax matters and litigation, are complex and involve many subjective assumptions, estimates and judgments. Changes in accounting standards or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported or expected financial performance or financial condition. The implementation of new accounting standards could also require certain systems, internal process and other changes that could increase our operating costs.

We are involved in a number of legal, regulatory and governmental enforcement proceedings, and while we cannot predict the outcomes of those proceedings and other contingencies with certainty, some of these outcomes may adversely affect our operations or increase our costs.

We are involved in a number of legal proceedings and regulatory matters, including government inquiries and investigations, and consumer, employment, tort and other litigation that arise from time to time in the ordinary course of business. Litigation is inherently unpredictable, and the outcome of some of these proceedings and other contingencies could require us to take or refrain from taking actions which could adversely affect our operations or could result in excessive adverse verdicts or results. Additionally, involvement in these lawsuits, investigations and inquiries, and other proceedings may involve significant expense, divert management's attention and resources from other matters, and impact the reputation of the Company.

Item 1B. Unresolved Staff Comments.

Not applicable.

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Item 2. Properties.

The percentage of our owned versus leased facilities that were operating at the end of fiscal 2019, along with the total square footage, follows:

square footage in millions	Owned	Leased	Total Square Footage
Stores [1]	90 %	10 %	238.1
Warehouses and distribution centers	4 %	96 %	60.0
Offices and other	23 %	77 %	4.4
Total			302.5

(1) Our owned stores include those subject to ground leases.

Our U.S. store locations at the end of fiscal 2019 follow:

U.S.	Stores	U.S.	Stores
Alabama	28	Montana	6
Alaska	7	Nebraska	8
Arizona	56	Nevada	21
Arkansas	14	New Hampshire	20
California	232	New Jersey	67
Colorado	46	New Mexico	13
Connecticut	30	New York	100
Delaware	9	North Carolina	40
District of Columbia	1	North Dakota	2
Florida	155	Ohio	70
Georgia	90	Oklahoma	16
Guam	1	Oregon	27
Hawaii	7	Pennsylvania	70
Idaho	11	Puerto Rico	9
Illinois	76	Rhode Island	8
Indiana	24	South Carolina	26
Iowa	10	South Dakota	1
Kansas	16	Tennessee	39
Kentucky	14	Texas	179
Louisiana	28	Utah	22
Maine	11	Vermont	3
Maryland	41	Virgin Islands	2
Massachusetts	45	Virginia	49
Michigan	70	Washington	45
Minnesota	33	West Virginia	6
Mississippi	14	Wisconsin	27
Missouri	34	Wyoming	5
		Total U.S.	1,984

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Our store locations outside of the U.S. at the end of fiscal 2019 follow:

Canada	Stores
Alberta	27
British Columbia	26
Manitoba	6
New Brunswick	3
Newfoundland	1
Nova Scotia	4
Ontario	88
Prince Edward Island	1
Quebec	22
Saskatchewan	4
Total Canada	182

Mexico	Stores
Aguascalientes	2
Baja California	6
Baja California Sur	2
Campeche	2
Chiapas	2
Chihuahua	5
Coahuila	5
Colima	2
Distrito Federal	10
Durango	1
Guanajuato	5
Guerrero	2
Hidalgo	1
Jalisco	7
Michoacán	4
Morelos	3
Nayarit	1
Nuevo León	10
Oaxaca	1
Puebla	5
Querétaro	4
Quintana Roo	3
San Luis Potosí	2
Sinaloa	5
Sonora	4
State of Mexico	16
Tabasco	1
Tamaulipas	5
Tlaxcala	1
Veracruz	5
Yucatán	2
Zacatecas	1
Total Mexico	125

Item 3. Legal Proceedings.

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

As previously reported, in January 2017, we became aware of an investigation by the EPA's criminal investigation division into our compliance with lead-safe work practices for certain jobs performed through our installation services business. We have also previously responded to civil document requests from several EPA regions. In the second quarter of fiscal 2018, we received a subpoena for documents from the EPA civil enforcement division. In the second quarter of fiscal 2019, we received a grand jury subpoena from the U.S. Attorney for the Northern District of Georgia and an amendment of the subpoena from the EPA civil enforcement division. We are continuing to cooperate and engage in discussions with the EPA and the Department of Justice on these matters.

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Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Since April 19, 1984, our common stock has been listed on the NYSE, trading under the symbol "HD." We paid our first cash dividend on June 22, 1987 and have paid a cash dividend during each subsequent quarter. While we currently expect a cash dividend to be paid in the future, future dividend payments will depend on our earnings, capital requirements, financial condition, and other factors considered relevant by our Board of Directors.

At March 6, 2020, there were approximately 121,000 holders of record of our common stock and approximately 3,043,000 additional "street name" holders whose shares are held of record by banks, brokers, and other financial institutions.

Stock Performance Graph

The graph and table below present our cumulative total shareholder returns relative to the performance of the S&P Retail Composite Index and the S&P 500 Index for the five most recent fiscal years. The graph assumes $100 was invested at the closing price of our common stock on the NYSE and in each index on the last trading day of fiscal 2014 and assumes that all dividends were reinvested on the date paid. The points on the graph represent fiscal year-end amounts based on the last trading day in each fiscal year.

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—●— The Home Depot —◆— S&P Retail Composite Index —■— S&P 500 Index

	Fiscal Year Ended					
	February 1, 2015	**January 31, 2016**	**January 29, 2017**	**January 28, 2018**	**February 3, 2019**	**February 2, 2020**
The Home Depot	$ 100.00	$ 122.88	$ 138.04	$ 211.56	$ 192.43	$ 244.53
S&P Retail Composite Index	100.00	116.80	138.46	201.09	211.74	255.38
S&P 500 Index	100.00	99.33	120.04	153.29	147.35	179.10

Issuer Purchases of Equity Securities

The number and average price of shares purchased in each fiscal month of the fourth quarter of fiscal 2019 follow:

Period	Total Number of Shares Purchased[1]	Average Price Paid Per Share[1]	Total Number of Shares Purchased as Part of Publicly Announced Program[2]	Dollar Value of Shares that May Yet Be Purchased Under the Program[2]
November 4, 2019 – December 1, 2019	594,467 [3]	$ 227.52	589,932	$ 11,486,268,617
December 2, 2019 – December 29, 2019	4,488,532	218.35	4,487,586	10,312,547,946
December 30, 2019 – February 2, 2020	9,854,407	226.26	9,852,099	8,277,265,927
Total	14,937,406	223.93	14,929,617	

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(1) *These amounts include repurchases pursuant to our Amended and Restated 2005 Omnibus Stock Incentive Plan and our 1997 Omnibus Stock Incentive Plan (collectively, 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 February 2019, our Board of Directors authorized a $15.0 billion share repurchase program that replaced the previous authorization. This program does not have a prescribed expiration date.*

(3) *This amount includes shares received in the fourth quarter of fiscal 2019 related to the settlement of the ASR agreement entered into in the third quarter of fiscal 2019. See Note 6 to our consolidated financial statements for further discussion of our ASR agreements.*

Sales of Unregistered Securities

During the fourth quarter of fiscal 2019, we issued 462 deferred stock units under the Home Depot, Inc. Nonemployee Directors' Deferred Stock Compensation Plan pursuant to the exemption from registration provided by Section 4(a)(2) of 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 fourth quarter of fiscal 2019. 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.

During the fourth quarter of fiscal 2019, we credited 9,193 deferred stock units to participant accounts under the 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 a termination of service as described in this plan.

Item 6. Selected Financial Data.

The information required by this item is incorporated by reference to page F-1 of this report.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our MD&A includes the following sections:

Executive Summary

Highlights of our annual financial performance follow:

dollars in millions, except per share data		Fiscal 2019		Fiscal 2018		Fiscal 2017
Net sales	$	110,225	$	108,203	$	100,904
Net earnings		11,242		11,121		8,630
Diluted earnings per share	$	10.25	$	9.73	$	7.29
Net cash provided by operating activities	$	13,723	$	13,038	$	12,031
Proceeds from long-term debt, net of discounts and premiums		3,420		3,466		2,991
Repayments of long-term debt		1,070		1,209		543
Repurchases of common stock		6,965		9,963		8,000

Note: Fiscal 2019 and fiscal 2017 include 52 weeks. Fiscal 2018 includes 53 weeks.

We reported net sales of $110.2 billion in fiscal 2019. Net earnings were $11.2 billion, or $10.25 per diluted share. We opened one net new store in Mexico and three net new stores in the U.S. during fiscal 2019, for a total store count of 2,291 at February 2, 2020. At the end of fiscal 2019, a total of 307 of our stores, or 13.4%, were located in Canada and Mexico. Total sales per retail square foot were $454.82 in fiscal 2019, and our inventory turnover ratio was 4.9 times at the end of fiscal 2019.

We generated $13.7 billion of cash flow from operations during fiscal 2019 and issued $3.4 billion of long-term debt, net of discounts and premiums. These funds, together with cash on hand, were used to pay $6.0 billion of dividends, fund cash payments of $7.0 billion for share repurchases, repay $365 million of net short-term borrowings, fund $2.7 billion in capital expenditures, and repay $1.0 billion of senior notes that matured in June 2019.

During fiscal 2019, we repurchased $7.0 billion of our common stock through open market transactions and an ASR agreement. In February 2020, we announced a 10% increase in our quarterly cash dividend to $1.50 per share.

Our ROIC was 45.4% for fiscal 2019. See the "Non-GAAP Financial Measures" section below for our definition and calculation of ROIC, as well as a reconciliation of NOPAT, a non-GAAP financial measure, to net earnings (the most comparable GAAP financial measure).

The recent outbreak of the novel coronavirus COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020, has led to adverse impacts on the U.S. and global economies and created uncertainty regarding potential impacts to our supply chain, operations, and customer demand. The pandemic has impacted and could further impact our operations and the operations of our suppliers and vendors as a result of quarantines, facility closures, and travel and logistics restrictions. As a result of COVID-19, we have reduced store operating hours, expanded our paid time off policy for associates, and shifted certain store support operations to remote or virtual, and we may face additional labor-related costs. We are also taking steps in our stores to manage foot traffic to better protect our customers and associates. In addition, in certain jurisdictions, we have had to cease sales of or delay commencement of work on certain services deemed “non-life-sustaining.”

We continue to actively monitor the situation and may take further actions that alter our operations as may be required by federal, state or local authorities or that we determine are in the best interests of our associates, customers, suppliers, vendors and shareholders. While the disruption is currently expected to be temporary, there is

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uncertainty regarding its duration. Therefore, while we expect the pandemic to impact our business, results of operations, financial position, and liquidity, we cannot reasonably estimate the impact at this time.

Results of Operations and Non-GAAP Measures

The tables and discussion below should be read in conjunction with our consolidated financial statements and related notes included in this report. The following table displays the percentage relationship between net sales and major categories in our consolidated statements of earnings, as well as the percentage change in the associated dollar amounts:

	Fiscal 2019		Fiscal 2018		Fiscal 2017	
dollars in millions	$	% of Net Sales	$	% of Net Sales	$	% of Net Sales
Net sales	$ 110,225		$ 108,203		$ 100,904	
Gross profit	37,572	34.1 %	37,160	34.3 %	34,356	34.0 %
Operating expenses:						
Selling, general and administrative	19,740	17.9	19,513	18.0	17,864	17.7
Depreciation and amortization	1,989	1.8	1,870	1.7	1,811	1.8
Impairment loss	—	—	247	0.2	—	—
Total operating expenses	21,729	19.7	21,630	20.0	19,675	19.5
Operating income	15,843	14.4	15,530	14.4	14,681	14.5
Interest and other (income) expense:						
Interest and investment income	(73)	(0.1)	(93)	(0.1)	(74)	(0.1)
Interest expense	1,201	1.1	1,051	1.0	1,057	1.0
Other	—	—	16	—	—	—
Interest and other, net	1,128	1.0	974	0.9	983	1.0
Earnings before provision for income taxes	14,715	13.3	14,556	13.5	13,698	13.6
Provision for income taxes	3,473	3.2	3,435	3.2	5,068	5.0
Net earnings	$ 11,242	10.2 %	$ 11,121	10.3 %	$ 8,630	8.6 %

Note: Fiscal 2019 and fiscal 2017 include 52 weeks. Fiscal 2018 includes 53 weeks. Certain percentages may not sum to totals due to rounding.

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Selected financial and sales data:	Fiscal 2019	Fiscal 2018	Fiscal 2017	% Change Fiscal 2019 vs. 2018	% Change Fiscal 2018 vs. 2017
Comparable sales increase (1) (2)	3.5 %	5.2 %	6.8 %	N/A	N/A
Comparable customer transactions increase (1) (3)	1.1 %	1.0 %	2.2 %	N/A	N/A
Comparable average ticket increase (1) (3)	2.5 %	4.2 %	4.5 %	N/A	N/A
Customer transactions (in millions) (3) (4)	1,616.0	1,620.8	1,578.6	(0.3 %)	2.7 %
Average ticket (3) (4) (5)	$ 67.30	$ 65.74	$ 63.06	2.4 %	4.2 %
Sales per retail square foot (3) (4) (6)	$ 454.82	$ 446.86	$ 417.02	1.8 %	7.2 %
Diluted earnings per share	$ 10.25	$ 9.73	$ 7.29	5.3 %	33.5 %

————

(1) *Fiscal 2019 compares the 52 week period in fiscal 2019 to weeks 2 through 53 in fiscal 2018. Fiscal 2018 calculations do not include results from the 53rd week of fiscal 2018 and compare weeks 1 through 52 in fiscal 2018 to the 52 week period in fiscal 2017.*

(2) *Comparable sales for fiscal 2017 do not include results for Interline.*

(3) *The calculations do not include results for Interline.*

(4) *The 53rd week of fiscal 2018 increased customer transactions by 24.5 million, added $0.01 to average ticket, and increased sales per retail square foot by $6.87.*

(5) *Average ticket represents the average price paid per transaction and is used by management to monitor the performance of the Company, as it represents a primary driver in measuring sales performance.*

(6) *Sales per retail square foot represents sales divided by the retail store square footage. Sales per retail square foot is a measure of the efficiency of sales based on the total square footage of our stores and is used by management to monitor the performance of the Company as an indicator of the productivity of owned and leased square footage for retail operations.*

Fiscal 2019 Compared to Fiscal 2018

Sales. We assess our sales performance by evaluating both net sales and comparable sales.

Net Sales. Fiscal 2019 consisted of 52 weeks compared to 53 weeks in fiscal 2018. Net sales for fiscal 2019 increased $2.0 billion, or 1.9%, to $110.2 billion. The increase in net sales in fiscal 2019 primarily reflected the impact of positive comparable sales driven by an increase in comparable average ticket growth and comparable customer transactions, offset by $1.7 billion of net sales attributable to the additional week in fiscal 2018. Online sales, which consist of sales generated online through our websites for products picked up in our stores or delivered to customer locations, represented 9.3% of net sales and grew 19.4% during fiscal 2019.

Comparable Sales. Comparable sales is a measure that highlights the performance of our existing locations and websites by measuring the change in net sales for a period over the comparable prior-period of equivalent length. Comparable sales includes sales at all locations, physical and online, open greater than 52 weeks (including remodels and relocations) and excludes closed stores. Retail stores become comparable on the Monday following their 52nd week of operation. Acquisitions, digital or otherwise, are included in comparable sales after they have been owned for more than 52 weeks. Our comparable sales results for fiscal 2019 compare the 52-week period reported for fiscal 2019 to weeks 2 through 53 in fiscal 2018. Comparable sales is intended only as supplemental information and is not a substitute for net sales presented in accordance with GAAP.

Total comparable sales increased 3.5% in fiscal 2019. The increase in comparable sales reflected a number of factors, including traffic growth across a number of our core categories and the execution of our strategic efforts to drive an enhanced interconnected experience in both the physical and digital worlds. All of our merchandising departments posted positive comparable sales in fiscal 2019 except for Lumber, which was negative primarily due to commodity price deflation. For fiscal 2019, comparable sales for our Appliances, Indoor Garden, Décor/Storage, Tools, Hardware, and Outdoor Garden merchandising departments were above the Company average. Our comparable average ticket increased 2.5% in fiscal 2019 while comparable customer transactions increased 1.1% during fiscal 2019. The increase in comparable average ticket was due in large part to strong sales in big ticket purchases in certain categories, such as appliances and vinyl plank flooring.

Gross Profit. Gross profit increased $412 million, or 1.1%, to $37.6 billion in fiscal 2019. Gross profit as a percent of net sales, or gross profit margin, was 34.1% in fiscal 2019 compared to 34.3% in fiscal 2018. The decrease in gross profit margin for fiscal 2019 was primarily driven by higher shrink and changes in product mix.

Operating Expenses. Our operating expenses are composed of SG&A, depreciation and amortization, and impairment loss.

Selling, General & Administrative. SG&A increased $227 million, or 1.2%, to $19.7 billion in fiscal 2019. As a percent of net sales, SG&A was 17.9% for fiscal 2019 compared to 18.0% for fiscal 2018.
The decrease in SG&A as

a percent of net sales for fiscal 2019 was primarily driven by expense leverage resulting from positive comparable sales and continued expense control, partially offset by expenses related to strategic investments in the business.

Depreciation and Amortization. Depreciation and amortization increased $119 million, or 6.4%, in fiscal 2019. As a percent of net sales, depreciation and amortization was 1.8% for fiscal 2019 compared to 1.7% in fiscal 2018. The increase in depreciation and amortization as a percent of net sales reflects incremental depreciation stemming from investments in the business, partially offset by leverage resulting from positive comparable sales and timing of asset additions. The additional week in fiscal 2018 did not result in incremental expense because we recognize depreciation and amortization expense on a monthly basis.

Impairment Loss. There were no material impairment losses recognized in fiscal 2019. We recognized a $247 million impairment loss in fiscal 2018 related to certain trade names associated with Interline. See Note 1 to our consolidated financial statements for further discussion.

Interest and Other, net. Interest and other, net, was $1.1 billion for fiscal 2019 compared to $974 million for fiscal 2018. Interest and other, net, as a percent of net sales increased to 1.0% in fiscal 2019 from 0.9% in fiscal 2018, primarily due to higher interest expense resulting from higher debt balances in fiscal 2019.

Provision for Income Taxes. Our combined effective income tax rate was 23.6% for both fiscal 2019 and fiscal 2018. The provision for income taxes in fiscal 2019 reflects a benefit from stock-based compensation and other discrete tax items. The effective income tax rate for fiscal 2018 primarily reflected the enactment of the Tax Act. See Note 5 to our consolidated financial statements for further discussion.

Diluted Earnings per Share. Diluted earnings per share were $10.25 for fiscal 2019 compared to $9.73 for fiscal 2018. Diluted earnings per share for fiscal 2019 reflected a tax-related benefit of $0.17 per share resulting from stock-based compensation and other discrete tax items.

Diluted earnings per share for fiscal 2018 reflected a benefit of $1.48 per share resulting from the enactment of the Tax Act, a benefit of $0.21 per share for the 53rd week, and a decrease of $0.16 per share due to the impairment loss related to certain trade names associated with Interline.

Fiscal 2018 Compared to Fiscal 2017

For a comparison of our results of operations for fiscal 2018 to fiscal 2017, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Form 10-K for the fiscal year ended February 3, 2019, filed with the SEC on March 28, 2019.

Non-GAAP Financial Measures

To provide clarity 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 ROIC is meaningful for investors and management because it measures how effectively we deploy our capital base. We define ROIC as NOPAT, a non-GAAP financial measure, for the most recent twelve-month period, divided by average debt and equity. We define average debt and equity as the average of beginning and ending long-term debt (including current installments) and equity for the most recent twelve-month period.

The calculation of ROIC, together with a reconciliation of NOPAT to net earnings (the most comparable GAAP measure), follows:

dollars in millions	**Fiscal 2019**	**Fiscal 2018**	**Fiscal 2017**
Net earnings	$ 11,242	$ 11,121	$ 8,630
Interest and other, net	1,128	974	983
Provision for income taxes	3,473	3,435	5,068

Operating income	15,843	15,530	14,681
Income tax adjustment [1]	(3,739)	(3,665)	(5,432)
NOPAT	$ 12,104	$ 11,865	$ 9,249
Average debt and equity [2]	$ 26,686	$ 26,492	$ 27,074
ROIC	45.4 %	44.8 %	34.2 %

Note: Fiscal 2019 and fiscal 2017 include 52 weeks. Fiscal 2018 includes 53 weeks.

(1) *Income tax adjustment is defined as operating income multiplied by our effective tax rate for the trailing twelve months.*

(2) *The beginning balance of equity for fiscal 2019 has been adjusted to reflect an immaterial opening balance sheet adjustment due to the adoption of ASU No. 2016-02, Leases, in fiscal 2019.The beginning balance of equity for fiscal 2018 has been adjusted to reflect an opening balance sheet adjustment of $75 million due to the adoption of ASU No. 2014-09, Revenue from Contracts with Customers, in fiscal 2018.*

Liquidity and Capital Resources

Cash and Cash Equivalents at End of Year

At February 2, 2020, we had $2.1 billion in cash and cash equivalents, of which $1.8 billion was held by our foreign subsidiaries. We believe that our current cash position, cash flow generated from operations, funds available from our commercial paper programs, and access to the long-term debt capital markets should be sufficient for our operating requirements and to enable us to fund our capital expenditures, dividend payments, and any required long-term debt payments through the next several fiscal years. In addition, we believe we have the ability to obtain alternative sources of financing. We expect capital expenditures of approximately $2.8 billion in fiscal 2020. Given the current uncertainty related to the COVID-19 pandemic, we may adjust our capital expenditures as necessary or appropriate to support the operations of the business.

Debt and Derivatives

At February 2, 2020, we had commercial paper programs with an aggregate borrowing capacity of $3.0 billion. All of our short-term borrowings in fiscal 2019 and fiscal 2018 were under these commercial paper programs. In connection with these programs, we have back-up credit facilities with a consortium of banks for borrowings up to $3.0 billion, which consist of a five-year $2.0 billion credit facility, which expires in December 2022, and a 364-day

$1.0 billion credit facility. In December 2019, we completed the renewal of our 364-day $1.0 billion credit facility, extending the maturity from December 2019 to December 2020. At February 2, 2020, we were in compliance with all of the covenants contained in the credit facilities, none of which are expected to impact our liquidity or capital resources. At February 2, 2020, there were $974 million of borrowings outstanding under these commercial paper programs compared to $1.3 billion at February 3, 2019.

In March 2020, we expanded our commercial paper programs from $3.0 billion to $6.0 billion. We also entered into an additional 364-day $3.5 billion credit facility in March 2020, which together with the two credit facilities mentioned above backs up our expanded commercial paper programs. We may enter into additional credit facilities or other debt financing.

We also issue senior notes from time to time and use derivative financial instruments in the management of our exposure to fluctuations in foreign currencies and interest rates on certain long-term debt. See Note 4 and Note 7 to our consolidated financial statements for further discussion of our debt and derivative agreements.

Leases

We use operating and finance leases to fund a portion of our real estate, including our stores, distribution centers, and store support centers. See Note 3 to our consolidated financial statements for further discussion of our operating and finance leases.

Share Repurchases

In February 2019, our Board of Directors authorized a new $15.0 billion share repurchase program, of which approximately $8.3 billion remained at the end of fiscal 2019. During fiscal 2019, we had cash payments of $7.0 billion for repurchases of our common stock through open market purchases and an ASR agreement. See Note 6 to our consolidated financial statements for further discussion of our share repurchases. In March 2020, we suspended our share repurchases until such time as we deem appropriate.

Cash Flows Summary

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Operating Activities. Cash flow generated from operations provides us with a significant source of liquidity. Our operating cash flows result primarily from cash received from our customers, offset by cash payments we make for products and services, employee compensation, operations, and occupancy costs.

Cash provided by or used in operating activities is also subject to changes in working capital. Working capital at any specific point in time is subject to many variables, including seasonality, inventory management and category expansion, the timing of cash receipts and payments, vendor payment terms, and fluctuations in foreign exchange rates.

Net cash provided by operating activities in fiscal 2019 was $13.7
billion driven primarily by net earnings of $11.2 billion and non-cash adjustments to net earnings of $2.7 billion, consisting of depreciation and amortization, stock-

based compensation expense and changes in deferred income taxes, offset by working capital outflows driven primarily by timing of inventory purchases and collection of receivables.

Net cash provided by operating activities in fiscal 2018 was $13.0 billion driven primarily by net earnings of $11.1 billion and non-cash adjustments to net earnings of $2.7 billion, consisting of depreciation and amortization, stock-based compensation, impairment loss and changes in deferred income taxes, partially offset by net cash outflows associated with changes in working capital driven primarily by timing of inventory purchases.

Investing Activities. Cash used in investing activities primarily reflected $2.7 billion and $2.4 billion of capital expenditures for investments in our business in fiscal 2019 and fiscal 2018, respectively.

Financing Activities. Cash used in financing activities in fiscal 2019 primarily reflected $7.0 billion of share repurchases and $6.0 billion of cash dividends paid, partially offset by $2.0 billion of net proceeds from short- and long-term debt.

Cash used in financing activities in fiscal 2018 primarily reflected $10.0 billion of share repurchases and $4.7 billion of cash dividends paid, partially offset by $2.0 billion of net proceeds from short- and long-term debt.

Contractual Obligations

Our significant contractual obligations at February 2, 2020 were as follows:

	Payments Due by Period				
in millions	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Short-term debt	$ 974	$ 974	$ —	$ —	$ —
Long-term debt – principal payments (1)	29,500	1,750	4,600	2,100	21,050
Long-term debt – interest payments (2)	17,709	1,083	1,951	1,775	12,900
Finance lease obligations (3)	1,773	172	341	312	948
Operating lease obligations (3)	6,680	955	1,647	1,256	2,822
Purchase obligations (4)	1,400	971	336	87	6
Unrecognized tax benefits (5)	25	25	—	—	—
Total	$ 58,061	$ 5,930	$ 8,875	$ 5,530	$ 37,726

(1) Excludes finance lease obligations.

(2) Interest payments are calculated at current interest rates, including the impact of active interest rate swaps.

(3) Includes finance and operating lease imputed interest of $608 million and $786 million, respectively.

(4) Purchase obligations include all legally binding contracts such as firm commitments for inventory purchases, utility purchases, capital expenditures, software acquisitions and license commitments, and legally binding service contracts. Purchase orders that are not binding agreements are excluded from the table above.

(5) Excludes $448 million of noncurrent unrecognized tax benefits due to uncertainty regarding the timing of future cash tax payments.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

Critical Accounting Policies

Our significant accounting policies are disclosed in Note 1 to our consolidated financial statements. The following discussion addresses our most critical accounting policies, which are those that are both important to the representation of our financial condition and results of operations, and that require significant judgment or use of significant assumptions or complex estimates.

Merchandise Inventories

We value the substantial majority of our inventory under the retail inventory method, using the first-in, first-out method, with the remainder of our inventories valued under a cost method. Under the retail inventory method, inventories are stated at cost, which is determined by applying a cost-to-retail ratio to the retail value of inventories.

The retail value of our inventory is adjusted as needed to reflect current market conditions. Because these adjustments are based on current prevailing market conditions, the value of our inventory approximates the lower of cost or market. The valuation under the retail inventory method is based on a number of factors such as markups, markdowns, and inventory losses (or shrink). As such, there exists an inherent uncertainty in the final determination of inventory cost and gross profit. We determine markups and markdowns based on the consideration of a variety of factors such as current and anticipated demand, customer preferences and buying trends, age of the merchandise, and weather conditions.

We calculate shrink based on actual inventory losses determined as a result of physical inventory counts during each fiscal period and estimated inventory losses which occur between physical inventory counts. The estimate for shrink in the interim period between physical inventory counts is calculated on a store-specific basis based on recent shrink results and current trends in the business. Historically, the difference between estimated shrink and actual inventory losses has not been material to our annual financial results.

We do not believe there is a reasonable likelihood for a material change in the estimates or assumptions we use to value our inventory under the retail inventory method. We believe that the retail inventory method provides an inventory valuation which approximates cost and results in valuing our inventory at the lower of cost or market.

Impairment of Long-Lived Assets

We evaluate our long-lived assets each quarter for indicators of potential impairment. Indicators of impairment include current period losses combined with a history of losses, our decision to relocate or close a store or other location before the end of its previously estimated useful life, or when changes in other circumstances indicate the carrying amount of an asset may not be recoverable. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The assets of a store with indicators of impairment are evaluated for recoverability by comparing their undiscounted future cash flows with their carrying value. Our cash flow projections look several years into the future and include assumptions of variables such as future sales and operating margin growth rates, economic conditions, market competition, and inflation.

If the carrying value is greater than the undiscounted future cash flows, we then measure the asset’s fair value to determine whether an impairment loss should be recognized. If the resulting fair value is less than the carrying value, an impairment loss is recognized. We generally base our estimates of fair market value on market appraisals of owned locations and estimates of the amount of potential sublease income and the time required to sublease for leased locations. Impairments and lease obligation costs on closings and relocations were not material to our consolidated financial statements in fiscal 2019, fiscal 2018 or fiscal 2017.

Self-Insurance

We have established liabilities for certain losses related to general liability (including product liability), workers’ compensation, employee group medical, and automobile claims for which we are self-insured. Our self-insured retention or deductible, as applicable, for each claim involving general liability, workers’ compensation, and automobile liability is limited to $25 million, $1 million, and $1 million, respectively. We have no stop loss limits for self-insured employee group medical claims. Our liabilities represent estimates of the ultimate cost for claims incurred at the balance sheet date. The estimated liabilities are not discounted and are established based upon analysis of historical data and actuarial estimates. The liabilities are reviewed by management and third-party actuaries to ensure that they are appropriate. While we believe these estimates are reasonable based on the information currently available, if actual trends, including the severity or frequency of claims, medical cost inflation or fluctuations in premiums, differ from our estimates, our results of operations could be impacted. Actual results related to these types of claims did not vary materially from estimated amounts for fiscal 2019, fiscal 2018 or fiscal 2017.

Vendor Allowances

Vendor allowances primarily consist of volume rebates that are earned as a result of attaining certain purchase levels and co-op advertising allowances for the promotion of vendors' products that are typically based on guaranteed minimum amounts with additional amounts being earned for attaining certain purchase levels. These vendor allowances are accrued as earned, with those allowances received as a result of attaining certain purchase levels accrued over the incentive period based on estimates of purchases. We believe that our estimate of vendor allowances earned based on expected volume of purchases over the incentive period is an accurate reflection of the ultimate allowance to be received from our vendors.

Volume rebates and certain co-op advertising allowances reduce the carrying cost of inventory and are recognized in cost of sales when the related inventory is sold. Certain other co-op advertising allowances that are reimbursements of specific, incremental and identifiable costs incurred to promote vendors' products are recorded as an offset against advertising expense in SG&A.

Uncertain Tax Positions

We are subject to income taxes in the United States and in multiple jurisdictions across our global operations. Thus, the determination of our provision for income taxes requires significant judgment, the use of estimates, and the interpretations and application of complex tax law. Our provision for income taxes could be affected by many factors, including changes in business operations, changes in tax law, outcomes of income tax audits, changes in our assessment of certain tax contingencies, the impact of discrete tax items and the mix of earnings among our U.S. and foreign operations.

The calculation of our tax liabilities involves dealing with complexity and thus, there are many transactions and calculations for which the ultimate tax determination is uncertain. The assessment of uncertain tax positions requires the use of significant judgment in evaluating our tax positions and assessing the timing and amounts of deductible and taxable items. We record the benefits of uncertain tax positions in our financial statements only after determining a more likely than not probability that the uncertain tax positions will be sustained.

Additional Information

For information on accounting pronouncements that have impacted or are expected to materially impact our financial condition, results of operations, or cash flows, see Note 1 to our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk. We have exposure to interest rate risk in connection with our long-term debt portfolio. We use interest rate swap agreements to manage our fixed/floating rate debt portfolio. At February 2, 2020, after giving consideration to our interest rate swap agreements, floating rate debt principal was $2.9 billion, or approximately 10% of our long-term debt portfolio. A 1.0 percentage point change in the interest costs of floating-rate debt would not have a material impact on our financial condition or results of operations.

The United Kingdom's Financial Conduct Authority has announced the intent to phase out the use of LIBOR by the end of 2021. When LIBOR is discontinued, we may need to renegotiate the terms of certain of our floating rate notes, interest rate swap agreements, and credit instruments which utilize LIBOR as a benchmark in determining the interest rate, to replace LIBOR with the new standard that is established. As a result, we may incur incremental costs in transitioning to a new standard, and interest rates on our current or future indebtedness may be adversely affected by the new standard. Decisions have not been finalized regarding the future utilization of LIBOR or any particular replacement rate. As such, the potential effect of any such event on our cost of capital cannot yet be determined, but we do not expect it to have a material impact on our consolidated financial condition, results of operations, or cash flows.

Foreign Currency Exchange Rate Risk. We are 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. Revenues from these foreign operations accounted for approximately $8.9 billion of our revenue for fiscal 2019. Our exposure to foreign currency rate fluctuations is not material to our financial condition or results of operations.

Commodity Price Risk. We experience inflation and deflation related to our purchase of certain commodity products. This price volatility could potentially have a material impact on our financial condition and/or our results of operations. In order to mitigate price volatility, we monitor commodity price fluctuations and may adjust our selling prices accordingly; however, our ability to recover higher costs through increased pricing may be limited by the competitive environment in which we operate. We currently do not use derivative instruments to manage these risks.

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Item 8. Financial Statements and Supplementary Data.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
The Home Depot, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying Consolidated Balance Sheets of The Home Depot, Inc. and Subsidiaries (the Company) as of February 2, 2020 and February 3, 2019, the related Consolidated Statements of Earnings, Comprehensive Income, Stockholders' Equity, and Cash Flows for each of the fiscal years in the three-year period ended February 2, 2020, and the related notes (collectively, the Consolidated Financial Statements). In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as of February 2, 2020 and February 3, 2019, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended February 2, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 2, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 25, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the Consolidated Financial Statements, the Company has changed its method of accounting for leases as of February 4, 2019 due to the adoption of Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, and related amendments.

Basis for Opinion

These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the Consolidated Financial Statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the Consolidated Financial Statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the Consolidated Financial Statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the Consolidated Financial Statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the Consolidated Financial Statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Evaluation of the self-insurance liability

As discussed in Note 1 to the Consolidated Financial Statements, the Company is self-insured for certain losses related to general liability (including product liability), workers' compensation, employee group medical, and automobile claims. The Company recognizes the expected ultimate cost for claims incurred at the balance sheet date as a liability. The expected ultimate cost for claims incurred is estimated based upon an analysis of historical data and actuarial estimates determined by the Company's third-party actuary.

We identified the evaluation of certain self-insurance liabilities as a critical audit matter, specifically those liabilities related to general liability (including product liability) and workers' compensation. Specialized skills were required to evaluate the actuarial methods and assumptions used in determining certain self-insurance liabilities. There was a high degree of judgment required to evaluate the Company's key assumptions such as loss development factors and the selection of ultimate losses among estimates derived using the various actuarial methods.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's self-insurance liabilities process including controls over the review of the third-party actuarial report and the actuarial methods and key assumptions used by the actuary in determining certain self-insurance liabilities. We analyzed the key assumptions underlying the actuarial estimates by evaluating the reported claims and claims payments. We involved actuarial professionals with specialized skills and knowledge, who assisted in:

- Assessing the actuarial methods used by the Company's third-party actuary, for consistency with generally accepted actuarial standards and practices;
- Evaluating the key assumptions by comparing to historical data; and
- Developing an independent actuarial range of certain self-insurance liabilities, based on the Company's underlying historical paid and incurred loss data, and comparing the range to the Company's estimated liabilities.

Evaluation of gross unrecognized income tax benefits

As discussed in Notes 1 and 5 to the Consolidated Financial Statements, the Company recognizes the effect of income tax positions if those positions are more likely than not of being sustained at the largest amount that is greater than 50% likely of being realized. The Company's tax positions are subject to examination by domestic and foreign taxing authorities and the resolution of such examinations may span multiple years. Since tax law is complex and often subject to interpretations, there is uncertainty that some of the Company's tax positions will be sustained upon examination.

We identified the evaluation of the Company's gross unrecognized tax benefits as a critical audit matter. Complex auditor judgment was required to evaluate the Company's interpretation of tax law and its identification and determination of the ultimate resolution of its tax positions.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's tax process to evaluate gross unrecognized tax benefits, including controls related to (1) interpreting tax law, (2) evaluating which of the Company's tax positions may not be sustained upon examination, and (3) determination of the more-likely-than-not amount of the positions to be upheld. We involved tax professionals with specialized skills and knowledge, who assisted in:

- Assessing the transfer pricing studies for compliance with applicable laws and regulations;
- Evaluating the Company's interpretation of tax laws by developing an independent assessment based on our understanding and interpretation of the tax laws;
- Inspecting settlements with applicable taxing authorities, and evaluating the expiration of statutes of limitations; and
- Analyzing the Company's assumptions and data used to determine the amount of tax benefits to recognize as well as testing the Company's calculations and comparing the results to the Company's assessment.

/s/ KPMG LLP

We have served as the Company's auditor since 1979.

Atlanta, Georgia
March 25, 2020

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THE HOME DEPOT, INC.
CONSOLIDATED BALANCE SHEETS

in millions, except per share data	February 2, 2020	February 3, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 2,133	$ 1,778
Receivables, net	2,106	1,936
Merchandise inventories	14,531	13,925
Other current assets	1,040	890
Total current assets	19,810	18,529
Net property and equipment	22,770	22,375
Operating lease right-of-use assets	5,595	—
Goodwill	2,254	2,252
Other assets	807	847
Total assets	$ 51,236	$ 44,003
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term debt	$ 974	$ 1,339
Accounts payable	7,787	7,755
Accrued salaries and related expenses	1,494	1,506
Sales taxes payable	605	656
Deferred revenue	2,116	1,782
Income taxes payable	55	11
Current installments of long-term debt	1,839	1,056
Current operating lease liabilities	828	—
Other accrued expenses	2,677	2,611
Total current liabilities	18,375	16,716
Long-term debt, excluding current installments	28,670	26,807
Long-term operating lease liabilities	5,066	—
Deferred income taxes	706	491
Other long-term liabilities	1,535	1,867
Total liabilities	54,352	45,881
Common stock, par value $0.05; authorized: 10,000 shares; issued: 1,786 shares at February 2, 2020 and 1,782 shares at February 3, 2019; outstanding: 1,077 shares at February 2, 2020 and 1,105 shares at February 3, 2019	89	89
Paid-in capital	11,001	10,578
Retained earnings	51,729	46,423
Accumulated other comprehensive loss	(739)	(772)
Treasury stock, at cost, 709 shares at February 2, 2020 and 677 shares at February 3, 2019	(65,196)	(58,196)
Total stockholders' (deficit) equity	(3,116)	(1,878)
Total liabilities and stockholders' equity	$ 51,236	$ 44,003

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF EARNINGS

in millions, except per share data	Fiscal 2019	Fiscal 2018	Fiscal 2017
Net sales	$ 110,225	$ 108,203	$ 100,904
Cost of sales	72,653	71,043	66,548
Gross profit	37,572	37,160	34,356
Operating expenses:			
Selling, general and administrative	19,740	19,513	17,864
Depreciation and amortization	1,989	1,870	1,811
Impairment loss	—	247	—
Total operating expenses	21,729	21,630	19,675
Operating income	15,843	15,530	14,681
Interest and other (income) expense:			
Interest and investment income	(73)	(93)	(74)
Interest expense	1,201	1,051	1,057
Other	—	16	—
Interest and other, net	1,128	974	983
Earnings before provision for income taxes	14,715	14,556	13,698
Provision for income taxes	3,473	3,435	5,068
Net earnings	$ 11,242	$ 11,121	$ 8,630
Basic weighted average common shares	1,093	1,137	1,178
Basic earnings per share	$ 10.29	$ 9.78	$ 7.33
Diluted weighted average common shares	1,097	1,143	1,184
Diluted earnings per share	$ 10.25	$ 9.73	$ 7.29

Fiscal 2019 and fiscal 2017 include 52 weeks. Fiscal 2018 includes 53 weeks.

See accompanying notes to consolidated financial statements.

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THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Net earnings	$ 11,242	$ 11,121	$ 8,630
Other comprehensive income (loss):			
Foreign currency translation adjustments	53	(267)	311
Cash flow hedges, net of tax	8	53	(1)
Other	3	8	(9)
Total other comprehensive income (loss)	64	(206)	301
Comprehensive income	$ 11,306	$ 10,915	$ 8,931

Fiscal 2019 and fiscal 2017 include 52 weeks. Fiscal 2018 includes 53 weeks.

See accompanying notes to consolidated financial statements.

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THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Common Stock:			
Balance at beginning of year	$ 89	$ 89	$ 88
Shares issued under employee stock plans	—	—	1
Balance at end of year	89	89	89
Paid-in Capital:			
Balance at beginning of year	10,578	10,192	9,787
Shares issued under employee stock plans	172	104	132
Stock-based compensation expense	251	282	273
Balance at end of year	11,001	10,578	10,192
Retained Earnings:			
Balance at beginning of year	46,423	39,935	35,519
Cumulative effect of accounting changes	26	75	—
Net earnings	11,242	11,121	8,630
Cash dividends	(5,958)	(4,704)	(4,212)
Other	(4)	(4)	(2)
Balance at end of year	51,729	46,423	39,935
Accumulated Other Comprehensive Income (Loss):			
Balance at beginning of year	(772)	(566)	(867)
Cumulative effect of accounting changes	(31)	—	—
Foreign currency translation adjustments	53	(267)	311
Cash flow hedges, net of tax	8	53	(1)
Other	3	8	(9)
Balance at end of year	(739)	(772)	(566)
Treasury Stock:			
Balance at beginning of year	(58,196)	(48,196)	(40,194)
Repurchases of common stock	(7,000)	(10,000)	(8,002)
Balance at end of year	(65,196)	(58,196)	(48,196)
Total stockholders' (deficit) equity	$ (3,116)	$ (1,878)	$ 1,454

Fiscal 2019 and fiscal 2017 include 52 weeks. Fiscal 2018 includes 53 weeks.

See accompanying notes to consolidated financial statements.

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THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Cash Flows from Operating Activities:			
Net earnings	$ 11,242	$ 11,121	$ 8,630
Reconciliation of net earnings to net cash provided by operating activities:			
Depreciation and amortization	2,296	2,152	2,062
Stock-based compensation expense	251	282	273
Impairment loss	—	247	—
Changes in receivables, net	(170)	33	139
Changes in merchandise inventories	(593)	(1,244)	(84)
Changes in other current assets	(135)	(257)	(10)
Changes in accounts payable and accrued expenses	68	743	352
Changes in deferred revenue	334	80	128
Changes in income taxes payable	44	(42)	29
Changes in deferred income taxes	202	26	92
Other operating activities	184	(103)	420
Net cash provided by operating activities	13,723	13,038	12,031
Cash Flows from Investing Activities:			
Capital expenditures	(2,678)	(2,442)	(1,897)
Payments for businesses acquired, net	—	(21)	(374)
Proceeds from sales of property and equipment	37	33	47
Other investing activities	(12)	14	(4)
Net cash used in investing activities	(2,653)	(2,416)	(2,228)
Cash Flows from Financing Activities:			
(Repayments of) proceeds from short-term debt, net	(365)	(220)	850
Proceeds from long-term debt, net of discounts and premiums	3,420	3,466	2,991
Repayments of long-term debt	(1,070)	(1,209)	(543)
Repurchases of common stock	(6,965)	(9,963)	(8,000)
Proceeds from sales of common stock	280	236	255
Cash dividends	(5,958)	(4,704)	(4,212)
Other financing activities	(176)	(26)	(211)
Net cash used in financing activities	(10,834)	(12,420)	(8,870)
Change in cash and cash equivalents	236	(1,798)	933
Effect of exchange rate changes on cash and cash equivalents	119	(19)	124
Cash and cash equivalents at beginning of year	1,778	3,595	2,538
Cash and cash equivalents at end of year	$ 2,133	$ 1,778	$ 3,595
Supplemental Disclosures:			
Cash paid for income taxes	$ 3,220	$ 3,774	$ 4,732
Cash paid for interest, net of interest capitalized	1,112	1,035	991
Non-cash capital expenditures	136	248	150

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Fiscal 2019 and fiscal 2017 include 52 weeks. Fiscal 2018 includes 53 weeks.

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

The Home Depot, Inc., together with its subsidiaries (the "Company," "Home Depot," "we," "our" or "us"), is a home improvement retailer that sells a wide assortment of building materials, home improvement products, lawn and garden products, and décor items and provides a number of services, in stores and online. We operate in the U.S. (including the Commonwealth of Puerto Rico and the territories of the U.S. Virgin Islands and Guam), Canada, and Mexico.

Consolidation and Presentation

Our consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Certain amounts in prior fiscal years have been reclassified to conform with the presentation adopted in the current fiscal year. Our fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31st. Fiscal 2019 and fiscal 2017 include 52 weeks while fiscal 2018 includes 53 weeks.

Use of Estimates

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses in preparing these financial statements in conformity with GAAP. Actual results could differ from these estimates.

Cash Equivalents

We consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Our cash equivalents are carried at fair market value and consist primarily of money market funds.

Receivables

The components of receivables, net, follow:

in millions	February 2, 2020	February 3, 2019
Card receivables	$ 778	$ 696
Rebate receivables	668	660
Customer receivables	292	284
Other receivables	368	296
Receivables, net	$ 2,106	$ 1,936

Card receivables consist of payments due from financial institutions for the settlement of credit card and debit card transactions. Rebate receivables represent amounts due from vendors for volume and co-op advertising rebates. Customer receivables relate to credit extended directly to certain customers in the ordinary course of business. The valuation allowance related these receivables was not material to our consolidated financial statements at the end of fiscal 2019 or fiscal 2018.

Merchandise Inventories

The substantial majority of our merchandise inventories are stated at the lower of cost (first-in, first-out) or market, as determined by the retail inventory method, which is based on a number of factors such as markups, markdowns, and inventory losses (or shrink). As the inventory retail value is adjusted regularly to reflect market conditions, inventory valued using the retail method approximates the lower of cost or market. Certain subsidiaries, including retail operations in Canada and Mexico, and distribution centers, record merchandise inventories at the lower of cost or net realizable value, as determined by a cost method. These merchandise inventories represent approximately 29% of the total merchandise inventories balance. We evaluate the inventory valued using a cost method at the end of each quarter to ensure that it is carried at the lower of cost or net realizable value. The valuation allowance for merchandise inventories valued under a cost method was not material to our consolidated financial statements at the end of fiscal 2019 or fiscal 2018.

Independent physical inventory counts or cycle counts are taken on a regular basis in each store and distribution center to ensure that amounts reflected in merchandise inventories are properly stated. Shrink (or in the case of excess inventory, swell) is the difference between the recorded amount of inventory and the physical inventory. We calculate shrink based on actual inventory losses occurring as a result of physical inventory counts during each fiscal period and estimated inventory losses occurring between physical inventory counts. The estimate for shrink occurring in the interim period between physical inventory counts is calculated on a store-specific basis based on recent shrink results and current trends in the business.

Property and Equipment

Buildings, furniture, fixtures, and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized using the straight-line method over the original term of the lease or the useful life of the improvement, whichever is shorter.

The estimated useful lives of our property and equipment follow:

	Life
Buildings	5 – 45 years
Furniture, fixtures and equipment	2 – 20 years
Leasehold improvements	5 – 45 years

We capitalize certain costs, including interest, related to construction in progress and the acquisition and development of software. Costs associated with the acquisition and development of software are amortized using the straight-line method over the estimated useful life of the software, which is three to six years. Certain development costs not meeting the criteria for capitalization are expensed as incurred.

We evaluate our long-lived assets each quarter for indicators of potential impairment. Indicators of impairment include current period losses combined with a history of losses, our decision to relocate or close a store or other location before the end of its previously estimated useful life, or when changes in other circumstances indicate the carrying amount of an asset may not be recoverable. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The assets of a store with indicators of impairment are evaluated for recoverability by comparing its undiscounted future cash flows with its carrying value. If the carrying value is greater than the undiscounted future cash flows, we then measure the asset's fair value to determine whether an impairment loss should be recognized. If the resulting fair value is less than the carrying value, an impairment loss is recognized for the difference between the carrying value and the estimated fair value. Impairment losses on property and equipment are recorded as a component of SG&A. When a leased location closes, we also recognize, in SG&A, the net present value of future lease obligations less estimated sublease income. Impairments and lease obligation costs on closings and relocations were not material to our consolidated financial statements in fiscal 2019, fiscal 2018, or fiscal 2017.

Leases

On February 4, 2019, we adopted the new leases standard using the modified retrospective transition method, which requires that we recognize leases differently pre- and post-adoption. See "Recently Adopted Accounting Pronouncements—ASU No. 2016-02" below for more information.

We categorize leases at their inception as either operating or finance leases. Lease agreements cover certain retail locations, office space, warehouse and distribution space, equipment, and vehicles. Operating leases are included in operating lease right-of-use assets, current operating lease liabilities, and long-term operating lease liabilities in our consolidated balance sheets. Finance leases are included in net property and equipment, current installments of long-term debt, and long-term debt, excluding current installments in our consolidated balance sheets.

Leased assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. We use a secured incremental borrowing rate as the discount rate for present value of lease payments when the rate implicit in the contract is not readily determinable. We determine a secured rate on a quarterly basis and update the weighted average discount rate accordingly. For operating leases with variable payments dependent upon an index or rate that commenced subsequent to adoption of ASU No. 2016-02, we apply the active index or rate as of the lease commencement date. Variable lease payments not based on an index or rate are not included in the operating lease liability as they cannot be reasonably estimated and are recognized in the period in which the obligation for those payments is incurred. Leases that have a term of twelve months or less upon commencement date are considered short-term in nature. Accordingly, short-term leases are not included on the consolidated balance sheets and are expensed on a straight-line basis over the lease term, which commences on the date we have the right to control the property.

Goodwill

Goodwill represents the excess of purchase price over the fair value of net assets acquired. We do not amortize goodwill, but assess the recoverability of goodwill in the third quarter of each fiscal year, or more often if indicators warrant, by determining whether the fair value of each reporting unit supports its carrying value. Each fiscal year, we may assess qualitative factors to determine whether it is more likely than not that the fair value of each reporting unit is less than its carrying amount as a basis for determining whether it is necessary to complete quantitative impairment assessments, with a quantitative assessment completed at least once every three years. We completed our last quantitative assessment in fiscal 2019.

In fiscal 2019, we completed our annual assessment of the recoverability of goodwill for the U.S., Canada, and Mexico reporting units, performed through quantitative assessments, and concluded that the fair value of the reporting units substantially exceeded their respective carrying values, including goodwill. There were no impairment charges related to goodwill for fiscal 2019, fiscal 2018, or fiscal 2017.

Changes in the carrying amount of our goodwill follow:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Goodwill, balance at beginning of year	$ 2,252	$ 2,275	$ 2,093
Acquisitions [1]	—	4	164
Dispositions	—	(15)	—
Other [2]	2	(12)	18
Goodwill, balance at end of year	$ 2,254	$ 2,252	$ 2,275

(1) *Includes purchase price allocation adjustments.*

(2) *Primarily reflects the impact of foreign currency translation.*

Other Intangible Assets

We amortize the cost of other finite-lived intangible assets over their estimated useful lives, which range up to 12 years. Intangible assets with indefinite lives are tested in the third quarter of each fiscal year for impairment, or more often if indicators warrant. Intangible assets other than goodwill are included in other assets.

In fiscal 2018, we recognized a pre-tax impairment loss of $247 million for certain trade names as a result of a shift in strategy for our MRO business. Our remaining finite-lived and indefinite-lived intangibles were not material at the end of fiscal 2019 or fiscal 2018.

Debt

We record any premiums or discounts associated with an issuance of long-term debt as a direct addition or deduction to the carrying value of the related senior notes. We also record debt issuance costs associated with an issuance of long-term debt as a direct deduction to the carrying value of the related senior notes. Premium, discount, and debt issuance costs are amortized over the term of the respective notes using the effective interest rate method.

Derivatives

We use derivative financial instruments in the management of our interest rate exposure on long-term debt and our exposure to foreign currency fluctuations. For derivatives that are designated as hedges, changes in their fair values that are considered effective are either accounted for in earnings or recognized in other comprehensive income or loss until the hedged item is recognized in earnings, depending on the nature of the hedge. Derivative financial instruments that do not qualify for hedge accounting are recorded at fair value with unrealized gains or losses reported in earnings. All qualifying derivative financial instruments are recognized at their fair values in either assets or liabilities at the balance sheet date and are reported on a gross basis.

Insurance

We are self-insured for certain losses related to general liability (including product liability), workers' compensation, employee group medical, and automobile claims. We recognize the expected ultimate cost for claims incurred (undiscounted) at the balance sheet date as a liability. The expected ultimate cost for claims incurred is estimated based upon analysis of historical data and actuarial estimates.

Our self-insurance liabilities, which are included in accrued salaries and related expenses, other accrued expenses and other long-term liabilities in the consolidated balance sheets, were $1.3 billion at February 2, 2020 and February 3, 2019.

We also maintain network security and privacy liability insurance coverage to limit our exposure to losses such as those that may be caused by a significant compromise or breach of our data security. Insurance-related expenses are included in SG&A.

Treasury Stock

Treasury stock is reflected as a reduction of stockholders' equity at cost. We use the weighted-average purchase cost to determine the cost of treasury stock that is reissued, if any.

Net Sales

On January 29, 2018, we adopted the new revenue recognition guidance per ASU No. 2014-09 using the modified retrospective transition method, which requires that we recognize revenue differently pre- and post-adoption.

Fiscal 2018 and Subsequent Periods. We recognize revenue, net of expected returns and sales tax, at the time the customer takes possession of merchandise or when a service is performed. The liability for sales returns, including the impact to gross profit, is estimated based on historical return levels and recognized at the transaction price. We also recognize a return asset, and corresponding adjustment to cost of sales, for our right to recover the goods returned by the customer, measured at the former carrying amount of the goods, less any expected recovery cost. At each financial reporting date, we assess our estimates of expected returns, refund liabilities, and return assets.

Net sales include services revenue generated through a variety of installation, home maintenance, and professional service programs. In these programs, the customer selects and purchases material for a project, and we provide or arrange for professional installation. These programs are offered through our stores, online, and in-home sales programs. Under certain programs, when we provide or arrange for the installation of a project and the subcontractor provides material as part of the installation, both the material and labor are included in services revenue. We recognize this revenue when the service for the customer is complete, which is not materially different from recognizing the revenue over the service period as the substantial majority of our services are completed within one week.

For product sold in stores or online, payment is typically due at the point of sale. For services, payment in full is due upon completion of the job. When we receive payment from customers before the customer has taken possession of the merchandise or the service has been performed, the amount received is recorded as deferred revenue until the sale or service is complete. Such performance obligations are part of contracts with expected original durations of three months or less. We further record deferred revenue for the sale of gift cards and recognize the associated revenue upon the redemption of those gift cards in net sales. Gift card breakage income, which is our estimate of the non-redeemed gift card balance and recognized in net sales, was immaterial in fiscal 2019 and fiscal 2018.

We also have agreements with third-party service providers who directly extend credit to customers, manage our PLCC program, and own the related receivables. We have evaluated the third-party entities holding the receivables under the program and concluded that they should not be consolidated. The agreement with the primary third-party service provider for our PLCC program expires in 2028, with us having the option, but no obligation, to purchase the existing receivables at the end of the agreement. Deferred interest charges incurred for our deferred financing programs offered to these customers, interchange fees charged to us for their use of the cards, and any profit sharing with the third-party service providers are included in net sales.

Fiscal 2017. We recognize revenue, net of estimated returns and sales tax, at the time the customer takes possession of merchandise or when a service is performed. The liability for sales returns, including the impact to gross profit, is estimated based on historical return levels.

Net sales include services revenue generated through a variety of installation, home maintenance, and professional service programs. In these programs, the customer selects and purchases material for a project, and we provide or arrange professional installation. These programs are offered through our stores and in-home sales programs.

Under certain programs, when we provide or arrange the installation of a project and the subcontractor provides material as part of the installation, both the material and labor are included in services revenue. We recognize this revenue when the service for the customer is complete.

When we receive payment from customers before the customer has taken possession of the merchandise or the service has been performed, the amount received is recorded as deferred revenue until the sale or service is complete. We also record deferred revenue for the sale of gift cards and recognize this revenue upon the redemption of gift cards in net sales. Gift card breakage income, which is our estimate of the non-redeemed gift card balance and recognized as a reduction to SG&A, was immaterial in fiscal 2017.

Deferred interest charges incurred for our deferred financing programs offered to customers are included in cost of sales in fiscal 2017. Interchange fees and any profit sharing related to the PLCC program are included in SG&A in fiscal 2017.

Cost of Sales

Cost of sales includes the actual cost of merchandise sold and services performed; the cost of transportation of merchandise from vendors to our distribution network, stores, or customers; shipping and handling costs from our stores or distribution network to customers; and the operating cost and depreciation of our sourcing and distribution network and online fulfillment centers. In fiscal 2017, cost of sales also included cost of deferred interest programs offered through our PLCC programs.

Vendor Allowances

Vendor allowances primarily consist of volume rebates that are earned as a result of attaining certain purchase levels and co-op advertising allowances for the promotion of vendors' products that are typically based on guaranteed minimum amounts with additional amounts being earned for attaining certain purchase levels. These vendor allowances are accrued as earned, with those allowances received as a result of attaining certain purchase levels accrued over the incentive period based on estimates of purchases. Volume rebates and certain co-op advertising allowances reduce the carrying cost of inventory and are recognized in cost of sales when the related inventory is sold.

Certain other co-op advertising allowances that are reimbursements of specific, incremental, and identifiable costs incurred to promote vendors' products are recorded as an offset against advertising expense in SG&A. The co-op advertising allowances recorded as an offset to advertising expense follow:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Specific, incremental, and identifiable co-op advertising allowances	$ 282	$ 235	$ 198

Advertising Expense

Television and radio advertising production costs, along with media placement costs, are expensed when the advertisement first appears. Certain co-op advertising allowances are recorded as an offset against advertising expense. Gross advertising expense included in SG&A follows:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Gross advertising expense	$ 1,186	$ 1,156	$ 995

Stock-Based Compensation

We are currently authorized to issue incentive and nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, and deferred shares to certain of our associates and non-employee directors under certain stock incentive plans. We measure and recognize compensation expense for all share-based payment awards made to associates and non-employee directors based on estimated fair values. The value of the portion of the award that is ultimately expected to vest is recognized as stock-based compensation expense over the requisite service period or as restrictions lapse. Additional information on our stock-based payment awards is included in Note 8.

Income Taxes

Income taxes are accounted for under the asset and liability method. We provide for federal, state, and foreign income taxes currently payable, as well as for those deferred due to timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates is recognized as income or expense in the period that includes the enactment date.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

We file a consolidated U.S. federal income tax return which includes certain eligible subsidiaries. Non-U.S. subsidiaries and certain U.S. subsidiaries, which are consolidated for financial reporting purposes, are not eligible to be included in our consolidated U.S. federal income tax return. Separate provisions for income taxes have been determined for these entities. For unremitted earnings of our non-U.S. subsidiaries, we are required to make an assertion regarding reinvestment or repatriation for tax purposes. For any earnings that we do not make a permanent reinvestment assertion, we recognize a provision for deferred income taxes. For earnings where we have made a permanent reinvestment assertion, no provision is recognized. See Note 5 for further discussion.

Comprehensive Income

Comprehensive income includes net earnings adjusted for certain gains and losses that are excluded from net earnings under GAAP, which consists primarily of foreign currency translation adjustments.

Foreign Currency Translation

Assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange on the last day of the reporting period. Revenues and expenses are translated using average exchange rates for the period and equity transactions are translated using the actual rate on the day of the transaction.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year's financial statement presentation.

Recently Adopted Accounting Pronouncements

ASU No. 2018-02. In February 2018, the FASB issued ASU No. 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which allows for an optional reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects as a result of the Tax Act. On February 4, 2019, we adopted ASU No. 2018-02, resulting in an increase of $31 million to retained earnings and a decrease of $31 million to accumulated other comprehensive income.

ASU No. 2017-12. In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," which amends the hedge accounting recognition and presentation requirements. ASU No. 2017-12 eliminates the concept of recognizing periodic hedge ineffectiveness for cash flow and net investment hedges and allows an entity to apply the shortcut method to partial-term fair value hedges of interest rate risk. On February 4, 2019, we adopted ASU No. 2017-12 with no material impact to our consolidated financial statements. We expect the impact of the adoption to be immaterial to our financial position, results of operations, and cash flows on an ongoing basis.

ASU No. 2016-02. In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which establishes a right-of-use model and requires an entity that is a lessee to recognize the right-of-use assets and liabilities arising from leases on the balance sheets. ASU No. 2016-02 also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. Leases will be classified as finance or operating, with classification affecting both the pattern and classification of expense recognition in the statements of earnings. This guidance was subsequently amended by ASU No. 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842;" ASU No. 2018-10, "Codification Improvements to Topic 842;" and ASU No. 2018-11, "Leases (Topic 842): Targeted Improvements." ASU

No. 2016-02 and subsequent updates require a modified retrospective transition, with the cumulative effect of transition, including initial recognition of lease assets and liabilities for existing operating leases, as of (i) the effective date or (ii) the beginning of the earliest comparative period presented. These updates also provide a number of practical expedients for implementation which we are applying, as discussed below.

On February 4, 2019 (the “effective date”), we adopted ASU No. 2016-02 and subsequent updates, collectively referred to as “Topic 842”, using the modified retrospective transition method. In addition, we adopted the package of practical expedients in transition, which permits us to not reassess our prior conclusions pertaining to lease identification, lease classification, and initial direct costs on leases that commenced prior to our adoption of the new standard. We also elected the ongoing practical expedient to not recognize operating lease right-of-use assets and operating lease liabilities related to short-term leases. We did not elect the use-of-hindsight or land easements practical expedients. For leases beginning subsequent to the effective date, we elected to not separate lease and non-lease components for certain classes of assets including real estate and certain equipment. To determine the measurement of the lease liability for operating leases with variable payments based on an index or rate that commenced prior to the adoption of Topic 842, we elected to apply the active index or rate at the effective date.

As a result of adopting Topic 842, we recognized net operating lease right-of-use assets of $5.7 billion and operating lease liabilities of $6.0 billion on the effective date. Existing prepaid rent, accrued rent, and closed store reserves were recorded as an offset to our gross operating lease right-of-use assets. The cumulative effect of the adoption resulted in an immaterial adjustment to the opening balance of retained earnings as of February 4, 2019. The standard did not have a material impact on our results of operations or cash flows.

Recently Issued Accounting Pronouncements

ASU No. 2019-12. In December 2019, the FASB issued ASU No. 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,” as part of its overall simplification initiative to reduce costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. Amendments include removal of certain exceptions to the general principles of Topic 740, “Income Taxes,” and simplification in several other areas. ASU No. 2019-12 is effective for annual reporting periods beginning after December 15, 2020, and interim periods therein. We are evaluating the effect it will have on our consolidated financial statements and related disclosures and do not anticipate a material impact.

ASU No. 2018-15. In August 2018, the FASB issued ASU No. 2018-15, “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract,” which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU No. 2018-15 is effective beginning in the first quarter of fiscal 2020. Early adoption is permitted. We will adopt this standard in the first quarter of 2020. We have evaluated the effect it will have on our consolidated financial statements and related disclosures and noted no material impact.

ASU No. 2017-04. In January 2017, the FASB issued ASU No. 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which simplifies how an entity is required to test goodwill for impairment. The amendments in ASU No. 2017-04 require goodwill impairment to be measured using the difference between the carrying amount and the fair value of the reporting unit and require the loss recognized to not exceed the total amount of goodwill allocated to that reporting unit. ASU No. 2017-04 should be applied on a prospective basis and is effective for our annual goodwill impairment tests beginning in the first quarter of fiscal 2020. Early adoption is permitted. We have evaluated the effect that ASU No. 2017-04 will have on our consolidated financial statements and related disclosures and noted no material impact.

ASU No. 2016-13. In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which introduced an expected credit loss model for the impairment of financial assets measured at amortized cost. The model replaces the probable, incurred loss model for those assets and instead, broadens the information an entity must consider in developing its expected credit loss estimate for assets measured at amortized cost. ASU No. 2016-13 is effective beginning in the first quarter of fiscal 2020. Early adoption is permitted. We will adopt this standard in the first quarter of 2020. We have evaluated the effect it will have on our consolidated financial statements and related disclosures and noted no material impact.

Recent accounting pronouncements pending adoption not discussed above are either not applicable or are not expected to have a material impact on our consolidated financial condition, results of operations, or cash flows.

2. NET SALES AND SEGMENT REPORTING

We currently conduct our retail operations in the U.S., Canada, and Mexico, each of which represents one of our three operating segments. Our operating segments reflect the way in which internally-reported financial information is used to make decisions and allocate resources. For disclosure purposes, we aggregate these three operating segments into one reportable segment due to their similar operating and financial characteristics and how the business is managed.

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The assets of each of our operating segments primarily consist of net property and equipment and merchandise inventories. Long-lived assets, classified by geography, follow:

in millions	February 2, 2020	February 3, 2019	January 28, 2018
Long-lived assets – in the U.S.	$ 20,302	$ 19,930	$ 19,526
Long-lived assets – outside the U.S.	2,468	2,445	2,549
Total long-lived assets	$ 22,770	$ 22,375	$ 22,075

No sales to an individual customer accounted for more than 10% of revenue during any of the last three fiscal years. Net sales, classified by geography, follow:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Net sales – in the U.S.	$ 101,333	$ 99,386	$ 92,413
Net sales – outside the U.S.	8,892	8,817	8,491
Net sales	$ 110,225	$ 108,203	$ 100,904

Net sales by products and services follow:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Net sales – products	$ 105,194	$ 102,933	$ 95,956
Net sales – services	5,031	5,270	4,948
Net sales	$ 110,225	$ 108,203	$ 100,904

Major product lines and the related merchandising departments (and related services) follow:

Major Product Line	Merchandising Departments
Building Materials	Building Materials, Electrical/Lighting, Lumber, Millwork, and Plumbing
Décor	Appliances, Décor/Storage, Flooring, Kitchen and Bath, and Paint
Hardlines	Hardware, Indoor Garden, Outdoor Garden, and Tools

During the first quarter of fiscal 2019, we combined the Electrical and Lighting merchandising departments into one department, Electrical/Lighting, and we renamed the Décor merchandising department to Décor/Storage. These changes had no impact on our net sales presentations.

Net sales by major product lines (and related services) follow:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Building Materials	$ 39,338	$ 39,883	$ 37,296
Décor	37,390	36,273	33,593
Hardlines	33,497	32,047	30,015
Net sales	$ 110,225	$ 108,203	$ 100,904

Note: Net sales for certain merchandising departments were reclassified in the first quarter of fiscal 2019. As a result, prior-year amounts have been reclassified to conform with the current-year presentation.

Net sales by merchandising department (and related services) follow:

dollars in millions	Fiscal 2019		Fiscal 2018		Fiscal 2017	
	Net Sales	% of Net Sales	Net Sales	% of Net Sales	Net Sales	% of Net Sales
Appliances	$ 9,852	8.9 %	$ 9,027	8.3 %	$ 8,167	8.1 %
Building Materials	7,712	7.0	7,770	7.2	7,266	7.2
Décor/Storage	3,758	3.4	3,583	3.3	3,175	3.1
Electrical/Lighting	9,844	8.9	9,941	9.2	9,441	9.4
Flooring	7,443	6.8	7,494	6.9	6,992	6.9
Hardware	6,381	5.8	6,203	5.7	5,878	5.8
Indoor Garden	10,989	10.0	10,450	9.7	9,785	9.7
Kitchen and Bath	7,717	7.0	7,728	7.1	7,275	7.2
Lumber	7,894	7.2	8,393	7.8	7,797	7.7
Millwork	5,757	5.2	5,757	5.3	5,382	5.3
Outdoor Garden	7,564	6.9	7,259	6.7	6,984	6.9
Paint	8,620	7.8	8,441	7.8	7,984	7.9
Plumbing	8,131	7.4	8,022	7.4	7,410	7.3
Tools	8,563	7.8	8,135	7.5	7,368	7.3
Total	$ 110,225	100.0 %	$ 108,203	100.0 %	$ 100,904	100.0 %

Note: Certain percentages may not sum to totals due to rounding. Net sales for certain merchandising departments were reclassified in fiscal 2019. As a result, prior year net sales have been reclassified to conform with the current year presentation. Prior year percent of net sales data also reflects the new classifications.

3. PROPERTY AND LEASES

Net Property and Equipment

The components of net property and equipment follow:

in millions	February 2, 2020	February 3, 2019
Land	$ 8,390	$ 8,363
Buildings	18,432	18,199
Furniture, fixtures, and equipment	13,666	12,460
Leasehold improvements	1,789	1,705
Construction in progress	1,005	820
Finance leases	1,578	1,392
Property and equipment, at cost	44,860	42,939
Less accumulated depreciation and finance lease amortization	22,090	20,564
Net property and equipment	$ 22,770	$ 22,375

Depreciation and finance lease amortization expense, including depreciation expense included in cost of sales, follows:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Depreciation and finance lease amortization expense	$ 2,223	$ 2,076	$ 1,983

Leases

We lease certain retail locations, office space, warehouse and distribution space, equipment, and vehicles. We consider various factors such as market conditions and the terms of any renewal options that may exist to determine whether we will renew or replace the lease. A substantial majority of our leases have remaining lease terms of one to 20 years, typically with the option to extend the leases for up to five years. Some of our leases may include the option to terminate in less than five years. In the event we are reasonably certain to exercise the option to extend a lease, we will include the extended terms in the related lease assets and liabilities. Real estate taxes, insurance, maintenance, and operating expenses applicable to the leased property are generally our obligations under the lease agreements.

Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. Further, certain lease agreements include rental payments based on an index or rate and others include rental payments based on a percentage of sales.

The consolidated balance sheet location of assets and liabilities related to operating and finance leases follow:

in millions	Consolidated Balance Sheet Caption	February 2, 2020
Assets:		
Operating lease assets	Operating lease right-of-use assets	$ 5,595
Finance lease assets [(1)]	Net property and equipment	934
Total lease assets		$ 6,529
Liabilities:		
Current:		
Operating lease liabilities	Current operating lease liabilities	$ 828
Finance lease liabilities	Current installments of long-term debt	84
Long-term:		
Operating lease liabilities	Long-term operating lease liabilities	5,066
Finance lease liabilities	Long-term debt, excluding current installments	1,081
Total lease liabilities		$ 7,059

(1) Finance lease assets are recorded net of accumulated amortization of $644 million as of February 2, 2020.

The components of lease cost follow:

in millions	Consolidated Statement of Earnings Caption	Fiscal 2019
Operating lease cost	Selling, general and administrative	$ 827
Finance lease cost:		
Amortization of leased assets	Depreciation and amortization	86
Interest on lease liabilities	Interest expense	92
Short-term lease cost	Selling, general and administrative	98
Variable lease cost	Selling, general and administrative	241
Sublease income	Selling, general and administrative	(14)
Net lease cost		$ 1,330

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ASU 2016-02 requires that public companies use a secured incremental borrowing rate as the discount rate for the present value of lease payments when the rate implicit in the contract is not readily determinable. We determine a secured rate on a quarterly basis and update the weighted average discount rate accordingly. Lease terms and discount rates follow:

	February 2, 2020
Weighted Average Remaining Lease Term (Years):	
Operating leases	10
Finance leases	12
Weighted Average Discount Rate:	
Operating leases	3.1 %
Finance leases	10.4 %

The approximate future minimum lease payments under operating and finance leases at February 2, 2020 follow:

in millions	Operating Leases	Finance Leases
Fiscal 2020	$ 955	$ 172
Fiscal 2021	875	171
Fiscal 2022	772	170
Fiscal 2023	677	164
Fiscal 2024	579	148
Thereafter	2,822	948
Total lease payments	6,680	1,773
Less imputed interest	786	608
Present value of lease liabilities	$ 5,894	$ 1,165

Note: Amounts presented do not include payments relating to immaterial leases excluded from the consolidated balance sheets as part of transition elections adopted upon implementation of Topic 842. Additionally, we have excluded approximately $1.9 billion of leases (undiscounted basis) that have not yet commenced. These leases will commence between 2020 and 2021 with lease terms of one to 20 years.

The approximate future minimum lease payments under capital and operating leases at February 3, 2019 and accounted for under previous lease guidance follow:

in millions	Operating Leases	Capital Leases
Fiscal 2019	$ 976	$ 150
Fiscal 2020	912	167
Fiscal 2021	792	143
Fiscal 2022	682	142
Fiscal 2023	584	137
Thereafter	3,090	970
	$ 7,036	1,709
Less imputed interest		660
Net present value of capital lease obligations		1,049
Less current installments		57
Long-term capital lease obligations, excluding current installments		$ 992

Other lease information follows for fiscal 2019:

in millions		Fiscal 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows – operating leases	$	1,003
Operating cash flows – finance leases		92
Financing cash flows – finance leases		70
Lease assets obtained in exchange for new operating lease liabilities		748
Lease assets obtained in exchange for new finance lease liabilities		186

4. DEBT AND DERIVATIVE INSTRUMENTS

Short-Term Debt

We have commercial paper programs with an aggregate borrowing capacity of $3.0 billion. All of our short-term borrowings in fiscal 2019 and fiscal 2018 were under these commercial paper programs. In connection with these programs, we have back-up credit facilities with a consortium of banks for borrowings up to $3.0 billion, which consist of a 364-day $1.0 billion credit facility and a five-year $2.0 billion credit facility, which expires in December 2022. In December 2019, we completed the renewal of our 364-day $1.0 billion credit facility, extending the maturity from December 2019 to December 2020.

Certain information on our commercial paper programs follows:

dollars in millions		February 2, 2020		February 3, 2019
Weighted average interest rate		1.56 %		2.41 %
Balance outstanding at fiscal year-end	$	974	$	1,339
Maximum amount outstanding at any month-end	$	2,097	$	2,264
Average daily short-term borrowings	$	624	$	621

Long-Term Debt

Details of the components of our long-term debt follow:

in millions	Interest Payable	Principal Amount	Carrying Amount February 2, 2020	Carrying Amount February 3, 2019
2.00% Senior notes due June 2019	Semi-annually	$ —	$ —	$ 999
Floating rate senior notes due June 2020	Quarterly	500	500	499
1.80% Senior notes due June 2020	Semi-annually	750	750	749
3.95% Senior notes due September 2020	Semi-annually	500	506	499
4.40% Senior notes due April 2021	Semi-annually	1,000	999	999
2.00% Senior notes due April 2021	Semi-annually	1,350	1,348	1,345
Floating rate senior notes due March 2022	Quarterly	300	299	299
3.25% Senior notes due March 2022	Semi-annually	700	698	696
2.625% Senior notes due June 2022	Semi-annually	1,250	1,246	1,245
2.70% Senior notes due April 2023	Semi-annually	1,000	998	997
3.75% Senior notes due February 2024	Semi-annually	1,100	1,095	1,094
3.35% Senior notes due September 2025	Semi-annually	1,000	996	995
3.00% Senior notes due April 2026	Semi-annually	1,300	1,290	1,288
2.125% Senior notes due September 2026	Semi-annually	1,000	989	987
2.80% Senior notes due September 2027	Semi-annually	1,000	1,007	981
3.90% Senior notes due December 2028	Semi-annually	1,000	1,059	1,005
2.95% Senior notes due June 2029	Semi-annually	1,750	1,797	—
5.875% Senior notes due December 2036	Semi-annually	3,000	2,953	2,951
5.40% Senior notes due September 2040	Semi-annually	500	495	495
5.95% Senior notes due April 2041	Semi-annually	1,000	989	989
4.20% Senior notes due April 2043	Semi-annually	1,000	989	989
4.875% Senior notes due February 2044	Semi-annually	1,000	979	979
4.40% Senior notes due March 2045	Semi-annually	1,000	978	977
4.25% Senior notes due April 2046	Semi-annually	1,600	1,585	1,585
3.90% Senior notes due June 2047	Semi-annually	1,150	1,144	738
4.50% Senior notes due December 2048	Semi-annually	1,500	1,462	1,462
3.125% Senior notes due December 2049	Semi-annually	1,250	1,221	—
3.50% Senior notes due September 2056	Semi-annually	1,000	972	972
Total senior notes		$ 29,500	29,344	26,814
Finance lease obligations; payable in varying installments through January 31, 2055			1,165	1,049
Total long-term debt			30,509	27,863
Less current installments of long-term debt			1,839	1,056
Long-term debt, excluding current installments			$ 28,670	$ 26,807

January 2020 Issuance. In January, we issued two tranches of senior notes.

- The first tranche consisted of $750 million of 2.95% senior notes due June 15, 2029 (the “2029 notes”) at a premium of $32 million. The 2029 notes form a single series with the Company’s $1.0 billion 2.95% senior notes due June 15, 2029 that were issued in June 2019 and have the same terms. The aggregate principal amount outstanding of the Company’s senior notes due June 15, 2029 is $1.8 billion. Interest on the 2029 notes is due semi-annually on June 15 and

December 15 of each year, beginning June 15, 2020, with interest accruing from December 15, 2019.

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- The second tranche consisted of $1.3 billion of 3.125% senior notes due December 15, 2049 (the “2049 notes”) at a discount of $16 million (together with the 2029 notes, the “January 2020 issuance”). Interest on the 2049 notes is due semi-annually on June 15 and December 15 of each year, beginning June 15, 2020.

- Issuance costs totaled $17 million. The net proceeds of the January 2020 issuance will be used for general corporate purposes, including repurchases of common stock.

June 2019 Issuance. In June 2019, we issued two tranches of senior notes.

- The first tranche consisted of $1.0 billion of 2.95% senior notes due June 15, 2029 at a discount of $6 million. Interest on these notes is due semi-annually on June 15 and December 15 of each year, beginning December 15, 2019.

- The second tranche consisted of $400 million of 3.90% senior notes due June 15, 2047 (the “2047 notes”) at a premium of $10 million (together with the $1.0 billion of 2.95% senior notes due June 15, 2029, the “June 2019 issuance”). The 2047 notes form a single series with the Company’s $750 million 3.90% senior notes due June 15, 2047 that were issued in June 2017, and have the same terms. The aggregate principal amount outstanding of the Company’s senior notes due June 15, 2047 is $1.2 billion. Interest on the 2047 notes is due semi-annually on June 15 and December 15 of each year, beginning December 15, 2019, with interest accruing from June 15, 2019.

- Issuance costs totaled $10 million. The net proceeds of the June 2019 issuance were used to repay the Company’s 2.00% senior notes that matured on June 15, 2019 and for general corporate purposes, including repurchases of common stock.

December 2018 Issuance. In December 2018, we issued four tranches of senior notes.

- The first tranche consisted of $300 million of floating rate senior notes due March 1, 2022 (the “2022 floating rate notes”). The 2022 floating rate notes bear interest at a variable rate determined quarterly equal to the three-month LIBOR plus 31 basis points. Interest on the 2022 floating rate notes is due quarterly on March 1, June 1, September 1, and December 1 of each year, beginning March 1, 2019.

- The second tranche consisted of $700 million of 3.25% senior notes due March 1, 2022 (the “2022 notes”) at a discount of $2 million. Interest on the 2022 notes is due semi-annually on March 1 and September 1 of each year, beginning March 1, 2019.

- The third tranche consisted of $1.0 billion of 3.90% senior notes due December 6, 2028 (the “2028 notes”) at a discount of $7 million. Interest on the 2028 notes is due semi-annually on June 6 and December 6 of each year, beginning June 6, 2019.

- The fourth tranche consisted of $1.5 billion of 4.50% senior notes due December 6, 2048 (the “2048 notes”) at a discount of $25 million (together with the 2022 floating rate notes, the 2022 notes and the 2028 notes, the “December 2018 issuance”). Interest on the 2048 notes is due semi-annually on June 6 and December 6 of each year, beginning June 6, 2019.

- Issuance costs totaled $22 million. The net proceeds of the December 2018 issuance were used for general corporate purposes, including repurchases of common stock.

Redemption. All of our senior notes, other than our outstanding floating rate notes, may be redeemed by us at any time, in whole or in part, at the redemption price plus accrued interest up to the redemption date. With respect to the 1.80% 2020 notes, the 3.25% 2022 notes, and the 5.875% 2036 notes, 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 on the notes to be redeemed that would be due after the related redemption date. With respect to all other notes, 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 us to redeem those notes at 101% of the aggregate principal amount of the notes plus accrued interest up to the redemption date.

We are generally not limited under the indentures governing the notes in our 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 our liquidity or capital resources.

Maturities of Long-Term Debt. Our long-term debt maturities, excluding finance leases, follow:

in millions		Principal
Fiscal 2020	$	1,750
Fiscal 2021		2,350
Fiscal 2022		2,250
Fiscal 2023		1,000
Fiscal 2024		1,100
Thereafter		21,050
Total	$	29,500

Derivative Instruments

We use derivative financial instruments from time to time in the management of our interest rate exposure on long-term debt and our exposure on foreign currency fluctuations.

We had outstanding interest rate swap agreements with combined notional amounts of $2.1 billion at February 2, 2020 and $1.3 billion at February 3, 2019. These agreements were accounted for as fair value hedges that swap fixed for variable rate interest to hedge changes in the fair values of certain senior notes. The fair values of these agreements were $120 million at February 2, 2020 and not material at February 3, 2019.

We had outstanding cross currency swap agreements with a combined notional amount of $326 million at February 3, 2019, accounted for as cash flow hedges, to hedge foreign currency fluctuations on certain intercompany debt. The approximate fair values of these agreements were assets of $121 million at February 3, 2019, which were the estimated amounts we would have received to settle the agreements and were included in other assets. These cross currency swap agreements settled during fiscal 2019, resulting in a gain of $118 million.

We also had outstanding foreign currency forward contracts, accounted for as cash flow hedges, which hedge the variability of forecasted cash flows associated with certain payments made in our foreign operations. At February 2, 2020 and February 3, 2019, the notional amounts and the fair values of these agreements were not material.

At February 2, 2020, we had outstanding foreign currency forward contracts, accounted for as net investment hedges, with a combined notional amount of $1.2 billion. These agreements hedge against foreign currency exposure on our net investment in certain subsidiaries. At February 2, 2020, the fair values of these agreements were not material.

5. INCOME TAXES

Tax Reform

On December 22, 2017, the U.S. enacted comprehensive tax legislation with the Tax Act, making broad and complex changes to U.S. tax law, including lowering the U.S. corporate income tax rate to 21%, transitioning to a modified territorial system, and providing for current expensing of certain qualifying capital expenditures.

We have elected to pay our transition tax over the eight-year period provided in the Tax Act. As of February 2, 2020, the remaining balance of our transition tax obligation was $14 million.

The Tax Act also created a new requirement that certain income (referred to as global intangible low-taxed income or “GILTI”) earned by controlled foreign corporations, or CFCs, must be included currently in the gross income of the CFCs’ U.S. shareholder. We have elected to account for GILTI in the period the tax is incurred; as such, the Company has not recorded any GILTI-related deferred taxes.

We expect additional regulatory guidance and technical clarifications from the U.S. Department of the Treasury and IRS clarifying certain provisions of the Tax Act within the next 12 months. When additional guidance is issued, we will recognize the related tax impact in the quarter of enactment.

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Provision for Income Taxes

Our earnings before the provision for income taxes follow:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
U.S.	$ 13,770	$ 13,456	$ 12,682
Foreign	945	1,100	1,016
Total	$ 14,715	$ 14,556	$ 13,698

Our provision for income taxes follows:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Current:			
Federal	$ 2,370	$ 2,495	$ 4,128
State	572	544	499
Foreign	340	372	331
Total current	3,282	3,411	4,958
Deferred:			
Federal	259	67	(67)
State	(72)	1	89
Foreign	4	(44)	88
Total deferred	191	24	110
Provision for income taxes	$ 3,473	$ 3,435	$ 5,068

Our combined federal, state, and foreign effective tax rates follow:

	Fiscal 2019	Fiscal 2018	Fiscal 2017
Combined federal, state, and foreign effective tax rates	23.6 %	23.6 %	37.0 %

The reconciliation of our provision for income taxes at the federal statutory rates of 21% for fiscal 2019, 21% for fiscal 2018, and approximately 34% for fiscal 2017 to the actual tax expense follows:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Income taxes at federal statutory rate	$ 3,090	$ 3,057	$ 4,648
State income taxes, net of federal income tax benefit	395	443	369
Tax on mandatory deemed repatriation	—	(62)	400
Other, net	(12)	(3)	(349)
Total	$ 3,473	$ 3,435	$ 5,068

Deferred Taxes

The tax effects of temporary differences that give rise to significant portions of our deferred tax assets and deferred tax liabilities follow:

in millions	February 2, 2020	February 3, 2019
Assets:		
Deferred compensation	$ 169	$ 183
Accrued self-insurance liabilities	285	298
State income taxes	100	96
Non-deductible reserves	156	231
Net operating losses	70	17
Lease liabilities	1,536	—
Other	135	116
Total deferred tax assets	2,451	941
Valuation allowance	—	—
Total deferred tax assets after valuation allowance	2,451	941
Liabilities:		
Merchandise inventories	(26)	(9)
Property and equipment	(1,107)	(893)
Goodwill and other intangibles	(195)	(179)
Right-of-use assets	(1,458)	—
Other	(232)	(230)
Total deferred tax liabilities	(3,018)	(1,311)
Net deferred tax liabilities	$ (567)	$ (370)

Our noncurrent deferred tax assets and noncurrent deferred tax liabilities, netted by tax jurisdiction, follow:

in millions	February 2, 2020	February 3, 2019
Other assets	$ 139	$ 121
Deferred income taxes	(706)	(491)
Net deferred tax liabilities	$ (567)	$ (370)

We believe that the realization of the deferred tax assets is more likely than not, based upon the expectation that we will generate the necessary taxable income in future periods.

At February 2, 2020, we had federal, state, and foreign net operating loss carryforwards available to reduce future taxable income, expiring at various dates beginning in 2020 to 2038. We have concluded that it is more likely than not that the tax benefits related to the federal, state, and foreign net operating losses will be realized.

Reinvestment of Unremitted Earnings

Substantially all of our current year foreign cash flows in excess of working capital and cash needed for strategic investments are not intended to be indefinitely reinvested offshore. Therefore, the tax effects of repatriation (including applicable state and local taxes and foreign withholding taxes) of such cash flows have been provided for in the accompanying consolidated statements of earnings. We intend to reinvest substantially all of the approximately $3 billion of non-cash unremitted earnings of our non-U.S. subsidiaries indefinitely. Accordingly, no provision for state and local taxes or foreign withholding taxes was recorded on these unremitted earnings in the accompanying consolidated statements of earnings. It is impracticable for us to determine the amount of unrecognized deferred tax liabilities on these indefinitely reinvested earnings due to the complexities associated with the hypothetical calculation.

Tax Return Examination Status

Our income tax returns are routinely examined by U.S. federal, state and local, and foreign tax authorities. With few exceptions, as of February 2, 2020, the Company is no longer subject to U.S. federal examinations by tax authorities for years before fiscal 2010. Our U.S. federal tax returns for fiscal years 2010 through 2014 and 2016 to 2018 are currently under examination by the IRS. With respect to the fiscal years 2010 to 2014, the IRS has issued a proposed adjustment relating to transfer pricing between our entities in the U.S. and China. We are defending our position using all available remedies including bi-lateral relief. There are also ongoing U.S. state and local audits and other foreign audits covering fiscal years 2007 through 2018. We do not expect the results from any ongoing income tax audit to have a material impact on our consolidated financial condition, results of operations, or cash flows.

Over the next twelve months, it is reasonably possible that the resolution of federal and state tax examinations could reduce our unrecognized tax benefits by $25 million. Final settlement of these audit issues may result in payments that are more or less than this amount, but we do not anticipate the resolution of these matters will result in a material change to our consolidated financial condition or results of operations.

Unrecognized Tax Benefits

Reconciliations of the beginning and ending amount of our gross unrecognized tax benefits follow:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Unrecognized tax benefits balance at beginning of fiscal year	$ 494	$ 637	$ 659
Additions based on tax positions related to the current year	96	91	74
Additions for tax positions of prior years	82	100	15
Reductions for tax positions of prior years	(147)	(245)	(93)
Reductions due to settlements	(13)	(66)	(1)
Reductions due to lapse of statute of limitations	(39)	(23)	(17)
Unrecognized tax benefits balance at end of fiscal year	$ 473	$ 494	$ 637

Unrecognized tax benefits that if recognized would affect our annual effective income tax rate on net earnings were $407 million at February 2, 2020; $398 million at February 3, 2019; and $483 million at January 28, 2018.

Interest and Penalties

Net adjustments to accruals for interest and penalties associated with uncertain tax positions resulted in a benefit of $14 million in fiscal 2019, a benefit of $33 million in fiscal 2018 and expenses of $24 million in fiscal 2017. Interest and penalties are included in interest expense and SG&A, respectively.

Our total accrued interest and penalties follow:

in millions	February 2, 2020	February 3, 2019
Total accrued interest and penalties	$ 87	$ 101

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6. STOCKHOLDERS' EQUITY

Stock Rollforward

A reconciliation of the number of shares of our common stock follows:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Common stock:			
Balance at beginning of year	1,782	1,780	1,776
Shares issued under employee stock plans	4	2	4
Balance at end of year	1,786	1,782	1,780
Treasury stock:			
Balance at beginning of year	(677)	(622)	(573)
Repurchases of common stock	(32)	(55)	(49)
Balance at end of year	(709)	(677)	(622)
Shares outstanding at end of year	1,077	1,105	1,158

Annual per share cash dividends follow:

	Fiscal 2019	Fiscal 2018	Fiscal 2017
Cash dividends per share	$ 5.44	$ 4.12	$ 3.56

Accelerated Share Repurchase Agreements

We enter into ASR agreements from time to time with third-party financial institutions to repurchase shares of our common stock. Under an ASR agreement, we pay a specified amount to the financial institution and receive an initial delivery of shares. This initial delivery of shares represents the minimum number of shares that we 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 our common stock over the term of the 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 terms of each ASR agreement entered into during the last three fiscal years, structured as outlined above, follow (in millions):

Agreement Date	Settlement Date	Agreement Amount	Initial Shares Delivered	Additional Shares Delivered	Total Shares Delivered
Q2 2017	Q2 2017	$ 1,650	9.7	1.1	10.8
Q3 2017	Q4 2017	1,200	6.7	0.7	7.4
Q1 2018	Q2 2018	750	3.4	0.8	4.2
Q2 2018	Q3 2018	1,600	7.1	1.0	8.1
Q3 2019	Q4 2019	820	3.2	0.4	3.6

7. FAIR VALUE MEASUREMENTS

The fair value of an asset is considered to be the price at which the asset could be sold in an orderly transaction between unrelated knowledgeable and willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, rather than the amount that would be paid to settle the liability with the creditor. Assets and liabilities recorded at fair value are measured using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities that are measured at fair value on a recurring basis follow:

	Fair Value at February 2, 2020 Using			Fair Value at February 3, 2019 Using		
in millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative agreements – assets	$ —	$ 133	$ —	$ —	$ 138	$ —
Derivative agreements – liabilities	—	—	—	—	(11)	—
Total	$ —	$ 133	$ —	$ —	$ 127	$ —

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The carrying amounts of cash and cash equivalents, receivables, short-term debt, and accounts payable approximate fair value due to the short-term maturities of these financial instruments.

Long-lived assets and other intangible assets are subject to nonrecurring fair value measurement for the assessment of impairment or as the result of business acquisitions. In the third quarter of fiscal 2019, we completed our annual assessment of the recoverability of goodwill for our U.S., Canada and Mexico reporting units. The fair values of these reporting units were estimated using the present value of expected future discounted cash flows through unobservable inputs (Level 3), and the fair value exceeded the carrying value for each respective reporting unit. Accordingly, no impairment charges related to goodwill were recorded for these reporting units.

Including goodwill as described above, we did not have any material assets or liabilities that were measured at fair value on a nonrecurring basis as of February 2, 2020 or February 3, 2019, respectively.

The aggregate fair values and carrying values of our senior notes follow:

	February 2, 2020		February 3, 2019	
in millions	Fair Value (Level 1)	Carrying Value	Fair Value (Level 1)	Carrying Value
Senior notes	$ 34,102	$ 29,344	$ 28,348	$ 26,814

8. STOCK-BASED COMPENSATION

Omnibus Stock Incentive Plans

The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan (the “2005 Plan”) and The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan (the “1997 Plan” and collectively with the 2005 Plan, the “Plans”) provide that incentive and nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, deferred shares, and other stock-based awards may be issued to certain of our associates and non-employee directors. Under the 2005 Plan, the maximum number of shares of our common stock authorized for issuance is 255 million shares, with any award other than a stock option or stock appreciation right reducing the number of shares available for issuance by 2.11 shares. At February 2, 2020, there were approximately 123 million shares available for future grants under the 2005 Plan. No additional equity awards could be issued from the 1997 Plan after the adoption of the 2005 Plan on May 26, 2005.

Stock Options. Under the terms of the Plans, incentive stock options and nonqualified stock options must have an exercise price at or above the fair market value of our stock on the date of the grant. Typically, nonqualified stock options vest at the rate of 25% per year commencing on the first or second anniversary date of the grant and expire on the tenth anniversary date of the grant. Additionally, certain stock options may become non-forfeitable upon the associate reaching age 60, provided the associate has had five years of continuous service. No incentive stock options have been issued under the 2005 Plan.

We estimate the fair value of stock option awards on the date of grant using an option-pricing model. We use the Black-Scholes option pricing model for purposes of valuing stock option awards. Our determination of fair value of stock option awards on the date of grant using the Black-Scholes option pricing model is affected by our stock price as well as assumptions regarding a number of subjective variables.

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The per share weighted average fair value of stock options granted and the assumptions used in determining fair value at the date of grant using the Black-Scholes option-pricing model follow:

	Fiscal 2019	Fiscal 2018	Fiscal 2017
Per share weighted average fair value	$ 27.33	$ 32.28	$ 21.85
Risk-free interest rate	2.2 %	2.7 %	1.9 %
Assumed volatility	19.8 %	21.3 %	19.4 %
Assumed dividend yield	2.9 %	2.3 %	2.4 %
Assumed lives of options	5 years	5 years	5 years

The total intrinsic value of stock options exercised follow:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Total intrinsic value of stock options exercised	$ 241	$ 138	$ 223

A summary of stock option activity by number of shares and weighted average exercise price follows:

shares in thousands	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	6,380	$ 91.78
Granted	519	190.66
Exercised	(1,649)	58.65
Forfeited	(38)	170.25
Outstanding at end of year	5,212	111.54

Shares of common stock issued from stock option exercises are made available from authorized and unissued common stock or treasury stock.

Details regarding outstanding and exercisable stock options at February 2, 2020 follow:

shares in thousands, dollars in millions, except for per share amounts	Number of Shares	Intrinsic Value	Weighted Average Remaining Life	Weighted Average Exercise Price
Outstanding	5,212	$ 607	5 years	$ 111.54
Exercisable	3,260	470	4 years	84.06

Restricted Stock and Performance Share Awards. Restrictions on the restricted stock issued under the Plans generally lapse according to one of the following schedules:

- the restrictions on the restricted stock lapse over various periods up to five years; or
- the restrictions on 25% of the restricted stock lapse upon the third and sixth anniversaries of the date of issuance with the remaining 50% of the restricted stock lapsing upon the associate's attainment of age 62.

At the grant date of the award, recipients of restricted stock are granted voting rights and generally receive dividends on unvested shares, paid in the form of cash on each dividend payment date. Additionally, certain restricted stock awards may become non-forfeitable upon the associate's attainment of age 60, provided the associate has had five years of continuous service.

We have also granted performance share awards under the Plans. These awards provide for the issuance of shares of our common stock at the end of the three-year performance cycle based upon our performance against target average ROIC and operating profit over that performance cycle. Additionally, certain awards may become non-forfeitable upon the associate's attainment of age 60, provided the associate has had five years of continuous service and minimum performance targets are achieved. Recipients of performance share awards have no voting rights until the shares are issued following completion of the performance period. Dividend equivalents accrue on the performance shares (as reinvested shares) and are paid upon the payout of the award based upon the actual number of shares earned.

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The fair value of the restricted stock and performance shares is based on the closing stock price on the date of grant and is expensed over the period during which the restrictions lapse.

Restricted Stock Units and Deferred Shares. Each restricted stock unit entitles the associate to one share of common stock to be received upon vesting up to five years after the grant date. Additionally, certain awards may become non-forfeitable upon the associate reaching age 60, provided the associate has had five years of continuous service. Recipients of restricted stock units have no voting rights until the vesting of the award. Recipients receive dividend equivalents that accrue on unvested units and are paid out in the form of additional shares of stock on the vesting date. The fair value of the restricted stock units is based on the closing stock price on the date of grant and is expensed over the period during which the units vest.

We grant awards of deferred shares to non-employee directors under the Plans. Each deferred share entitles the non-employee director to one share of common stock to be received following termination of Board service. Recipients of deferred shares have no voting rights and receive dividend equivalents that accrue and are paid out in the form of additional shares of stock upon payout of the underlying shares following termination of service. The fair value of the deferred shares is based on the closing stock price on the date of grant and is expensed immediately upon grant.

Deferred shares granted to non-employee directors follow:

	Fiscal 2019	Fiscal 2018	Fiscal 2017
Deferred shares granted to non-employee directors	22,000	26,000	27,000

Stock-Based Compensation Activity. A summary of restricted stock, performance shares, and restricted stock unit activity follows:

shares in thousands	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	4,242	$ 150.51
Granted	1,652	186.56
Vested	(1,597)	134.28
Forfeited	(322)	168.09
Nonvested at end of year	3,975	170.58

Stock-based compensation expense, net of estimated forfeitures follows:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Stock-based compensation expense, net	$ 251	$ 282	$ 273

At February 2, 2020, there was $379 million of unamortized stock-based compensation expense, which is expected to be recognized over a weighted average period of two years.

The total fair value of restricted stock, performance shares, and restricted stock units that vested during the fiscal year follow:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Total fair value vested	$ 303	$ 367	$ 309

Employee Stock Purchase Plans

We maintain two ESPPs (a U.S. and a non-U.S. plan). The plan for U.S. associates is a tax-qualified plan under Section 423 of the Internal Revenue Code. The non-U.S. plan is not a Section 423 plan. At February 2, 2020, there were 18 million shares available under the U.S. plan and 19 million shares available under the non-U.S. plan. The purchase price of shares under the ESPPs is equal to 85% of the stock's fair market value on the last day of the purchase period, which is a six-month period ending on December 31 and June 30 of each year. During fiscal 2019, there were 1 million shares purchased under the ESPPs at an average price of $180.87. Under the outstanding

ESPPs at February 2, 2020, associates have contributed $23 million to purchase shares at 85% of the stock's fair market value on the last day of the current purchase period, June 30, 2020.

9. EMPLOYEE BENEFIT PLANS

We maintain active defined contribution retirement plans for our associates (the "Benefit Plans"). All associates satisfying certain service requirements are eligible to participate in the Benefit Plans. We make cash contributions each payroll period up to specified percentages of associates' contributions as approved by our Board of Directors.

We also maintain the Restoration Plan to provide certain associates deferred compensation that they would have received under the Benefit Plans as a matching contribution if not for the maximum compensation limits under the Internal Revenue Code. We fund the Restoration Plan through contributions made to a grantor trust, which are then used to purchase shares of our common stock in the open market.

Our contributions to the Benefit Plans and the Restoration Plan follow:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Contributions to the Benefit Plans and the Restoration Plan	$ 213	$ 211	$ 202

At February 2, 2020, the Benefit Plans and the Restoration Plan held a total of 6 million shares of our common stock in trust for plan participants.

10. WEIGHTED AVERAGE COMMON SHARES

The reconciliation of our basic to diluted weighted average common shares follows:

in millions	Fiscal 2019	Fiscal 2018	Fiscal 2017
Basic weighted average common shares	1,093	1,137	1,178
Effect of potentially dilutive securities	4	6	6
Diluted weighted average common shares	1,097	1,143	1,184
Anti-dilutive securities excluded from diluted weighted average common shares	—	—	1

11. COMMITMENTS AND CONTINGENCIES

At February 2, 2020, we had outstanding letters of credit totaling $384 million, primarily related to certain business transactions, including insurance programs, trade contracts, and construction contracts.

We are involved in litigation arising in the normal course of business. In management's opinion, any such litigation is not expected to have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

12. QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of our quarterly consolidated results of operations follows:

in millions, except per share data	First Fiscal Quarter	Second Fiscal Quarter	Third Fiscal Quarter	Fourth Fiscal Quarter
Fiscal 2019:				
Net sales	$ 26,381	$ 30,839	$ 27,223	$ 25,782
Gross profit	9,017	10,432	9,387	8,736
Net earnings	2,513	3,479	2,769	2,481
Basic earnings per share	2.28	3.18	2.54	2.29
Diluted earnings per share	2.27	3.17	2.53	2.28
Fiscal 2018:				
Net sales	$ 24,947	$ 30,463	$ 26,302	$ 26,491
Gross profit	8,617	10,365	9,151	9,027
Net earnings	2,404	3,506	2,867	2,344
Basic earnings per share	2.09	3.06	2.53	2.10
Diluted earnings per share	2.08	3.05	2.51	2.09

The fourth fiscal quarter of fiscal 2018 includes 14 weeks; all other quarters in fiscal 2018 and all quarters of fiscal 2019 include 13 weeks.

13. SUBSEQUENT EVENTS

The recent outbreak of the novel coronavirus COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020, has led to adverse impacts on the U.S. and global economies and created uncertainty regarding potential impacts to our supply chain, operations, and customer demand. The pandemic has impacted and could further impact our operations and the operations of our suppliers and vendors as a result of quarantines, facility closures, and travel and logistics restrictions. As a result of COVID-19, we have reduced store operating hours, expanded our paid time off policy for associates, and shifted certain store support operations to remote or virtual. We are also taking steps in our stores to manage foot traffic to better protect our customers and associates. In addition, in certain jurisdictions, we have had to cease sales of or delay commencement of work on certain services deemed “non-life-sustaining.” While the disruption caused by the pandemic is currently expected to be temporary, there is uncertainty regarding its duration. Therefore, while we expect the pandemic to impact our results of operations, financial position, and liquidity, we cannot reasonably estimate the impact at this time.

As a result, the Company is taking action to enhance its financial flexibility. In March 2020, we expanded our commercial paper programs from $3.0 billion to $6.0 billion and suspended our share repurchases. We also entered into an additional 364-day $3.5 billion credit facility in March 2020, which together with our existing credit facilities backs up our expanded commercial paper programs.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting during the fiscal quarter ended February 2, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) promulgated under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of February 2, 2020 based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of February 2, 2020 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The effectiveness of our internal control over financial reporting as of February 2, 2020 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ CRAIG A. MENEAR	/s/ RICHARD V. MCPHAIL
Craig A. Menear Chairman, Chief Executive Officer and President	Richard V. McPhail Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
The Home Depot, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited The Home Depot, Inc. and Subsidiaries' (the Company) internal control over financial reporting as of February 2, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 2, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Consolidated Balance Sheets of the Company as of February 2, 2020 and February 3, 2019, the related Consolidated Statements of Earnings, Comprehensive Income, Stockholders' Equity, and Cash Flows for each of the fiscal years in the three-year period ended February 2, 2020, and the related notes (collectively, the Consolidated Financial Statements), and our report dated March 25, 2020 expressed an unqualified opinion on those Consolidated Financial Statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Atlanta, Georgia

March 25, 2020

Item 9B. Other Information.

The Home Depot, Inc. has established a $3.5 billion revolving credit facility (the “Credit Facility”) by entering into a 364-Day Revolving Credit Facility Agreement dated as of March 23, 2020 (the “Credit Agreement”) with the banks party thereto, JPMorgan Chase Bank, N.A. and BOFA Securities, Inc. as Joint Lead Arrangers and Joint Bookrunners, JPMorgan Chase Bank, N.A. as administrative agent for the banks party thereto (in such capacity, the “Agent”) and Bank of America, N.A., as syndication agent. We currently intend to use borrowings, if any, under the Credit Facility, for general corporate purposes and to support our expanded commercial paper programs. Commitments under the Credit Facility will expire, and the Credit Facility will mature, on March 22, 2021. Fundings under the Credit Facility are subject to conditions customary for financings of this type.

Loans under the Credit Facility will bear interest at a rate per year generally equal to, at our election, either:

- the highest of (a) the interest rate quoted by The Wall Street Journal as the prime rate in the United States; (b) 0.5% plus the greater of (i) the federal funds effective rate and (ii) the overnight bank funding rate, each as determined by the Federal Reserve Bank of New York; and (c) LIBOR for a one-month interest period plus 1.0%, plus the applicable margin for such loans (“Base Rate Loans”); or

- LIBOR for the selected term which may be one, two, three or six months, plus the applicable margin for such loans (“Eurodollar Loans”).

The applicable margin for loans will vary depending upon our ratings for senior, unsecured, long-term indebtedness for borrowed money. Based upon our current ratings, the applicable margin for Base Rate Loans would be 0.00%, and the applicable margin for Eurodollar Loans would be 0.950%. In addition, we will pay a facility fee on the commitments outstanding under the Credit Facility.

The Credit Agreement contains representations and warranties, affirmative and negative covenants, and events of default customary for financings of this type.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this item, other than the information regarding the executive officers set forth below, is incorporated by reference to the sections entitled “Election of Directors,” “Corporate Governance,” “General,” and “Audit Committee Report” in our Proxy Statement for the 2020 Annual Meeting of Shareholders (“Proxy Statement”).

Executive officers are appointed by, and serve at the pleasure of, the Board of Directors. Our executive officers are as follows:

ANN-MARIE CAMPBELL, age 54, has been Executive Vice President – U.S. Stores since February 2016. From January 2009 to February 2016, she served as Division President of the Southern Division, and from December 2005 to January 2009, she served as Vice President – Vendor Services. Ms. Campbell began her career with The Home Depot in 1985 as a cashier and has held roles of increasing responsibility since she joined the Company, including vice president roles in the Company’s operations, merchandising, and marketing departments. She serves as a director of Workday, Inc., a financial and human capital management software vendor.

MATTHEW A. CAREY, age 55, has been Executive Vice President and Chief Information Officer since September 2008. From January 2006 through August 2008, he served as Senior Vice President and Chief Technology Officer at eBay Inc., an online commerce platform. Mr. Carey was previously with Wal-Mart Stores, Inc., a general merchandise retailer, from June 1985 to December 2005. His final position with Wal-Mart was Senior Vice President and Chief Technology Officer.

EDWARD P. DECKER, age 57, has been Executive Vice President – Merchandising since August 2014. From October 2006 through July 2014, he served as Senior Vice President – Retail Finance, Pricing Analytics, and Assortment Planning. Mr. Decker joined The Home Depot in 2000 and held various strategic planning roles, including serving as Vice President – Strategic Business Development from November 2002 to April 2006 and Senior Vice President – Strategic Business and Asset Development from April 2006 to September 2006. Prior to joining the Company, Mr. Decker held various positions in strategic planning, business development, finance, and treasury at Kimberly-Clark Corp. and Scott Paper Co., both of which are consumer products companies.

MARK Q. HOLIFIELD, age 63, has been Executive Vice President – Supply Chain and Product Development since February 2014. From July 2006 through February 2014, he served as Senior Vice President – Supply Chain. Mr. Holifield was previously with Office Depot, Inc., an office products and services company, from 1994 through July

2006, where he served in various supply chain positions, including Executive Vice President of Supply Chain Management.

TIMOTHY A. HOURIGAN, age 63, has been Executive Vice President – Human Resources since June 2017. From February 2016 through June 2017, he served as Division President of the Southern Division. Prior to his role as Division President, Mr. Hourigan served in various human resources roles with the Company, including Vice President – Human Resources, U.S. Stores and Operations from September 2013 to February 2016; Vice President – Compensation and Benefits from February 2007 to September 2013; and Vice President – Human Resources from July 2002 to February 2007.

WILLIAM G. LENNIE, age 64, has been Executive Vice President – Outside Sales & Service since July 2015. From March 2011 through January 2016, he served as President of The Home Depot Canada, and he served as Senior Vice President – International Merchandising, Private Brands, and Global Sourcing from March 2009 through March 2011. Mr. Lennie originally joined the Company in 1992 and held roles of increasing responsibility in the Company's merchandising department. In 2006, Mr. Lennie left the Company to be Senior Vice President of Merchandising, Hardlines for Dick's Sporting Goods, Inc., a sporting goods retailer, before re-joining The Home Depot in 2009.

RICHARD V. McPHAIL, age 49, has been Executive Vice President and Chief Financial Officer since September 2019. From August 2017 through August 2019, he served as Senior Vice President, Finance Control and Administration, of the Company, and was responsible for enterprise financial reporting and operations, financial planning and analysis, treasury, payments, tax, and international financial operations. From August 2014 to September 2017, he served as Senior Vice President, Finance, with responsibility for U.S. Retail finance, strategic and financial planning, and business development activity. Mr. McPhail served as Senior Vice President, Global FP&A, Strategy, and New Business Development, from March 2013 to August 2014; Vice President, Strategic Business Development, from January 2007 to March 2013; and director of Strategic Business Development from May 2005 to January 2007. Prior to joining the Company in 2005, Mr. McPhail served as executive vice president of corporate finance for Marconi Corporation plc in London, England, where he led their business development efforts in Europe and North America. Prior to Marconi, Mr. McPhail held positions with Wachovia Securities and with Arthur Andersen.

CRAIG A. MENEAR, age 62, has been our Chief Executive Officer and President since November 2014 and our Chairman since February 2015. He previously served as our President, U.S. Retail from February 2014 through October 2014. From April 2007 through February 2014, he served as Executive Vice President – Merchandising, and from August 2003 through April 2007, he served as Senior Vice President – Merchandising. From 1997 through August 2003, Mr. Menear served in various management and vice president level positions in the Company's merchandising department, including Merchandising Vice President of Hardware, Merchandising Vice President of the Southwest Division, and Divisional Merchandise Manager of the Southwest Division.

TERESA WYNN ROSEBOROUGH, age 61, has been Executive Vice President, General Counsel and Corporate Secretary since November 2011. From April 2006 through November 2011, Ms. Roseborough served in several legal positions with MetLife, Inc., a provider of insurance and other financial services, including Senior Chief Counsel – Compliance & Litigation and most recently as Deputy General Counsel. Prior to joining MetLife, Ms. Roseborough was a partner with the law firm Sutherland Asbill & Brennan LLP from February 1996 through March 2006 and a Deputy Assistant Attorney General in the Office of Legal Counsel of the United States Department of Justice from January 1994 through February 1996. Ms. Roseborough serves as a director of The Hartford Financial Services Group, Inc., an investment and insurance company.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to the sections entitled "Executive Compensation," "Director Compensation," and "Leadership Development and Compensation Committee Report" in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference to the sections entitled “Beneficial Ownership of Common Stock” and “Executive Compensation – Equity Compensation Plan Information” in our Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference to the section entitled “Corporate Governance” in our Proxy Statement.

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Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated by reference to the section entitled "Independent Registered Public Accounting Firm's Fees" in our Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

The following documents are filed as part of this report:

1. Financial Statements

The following financial statements are set forth in Item 8 hereof:

- Report of Independent Registered Public Accounting Firm;
- Consolidated Balance Sheets as of February 2, 2020 and February 3, 2019;
- Consolidated Statements of Earnings for fiscal 2019, fiscal 2018, and fiscal 2017;
- Consolidated Statements of Comprehensive Income for fiscal 2019, fiscal 2018, and fiscal 2017;
- Consolidated Statements of Stockholders' Equity for fiscal 2019, fiscal 2018, and fiscal 2017;
- Consolidated Statements of Cash Flows for fiscal 2019, fiscal 2018, and fiscal 2017; and
- Notes to Consolidated Financial Statements.

2. Financial Statement Schedules

All schedules are omitted as the required information is inapplicable or the information is presented in our consolidated financial statements or related notes.

3. Exhibits

Exhibits not filed or furnished herewith are incorporated by reference to exhibits previously filed with the SEC, as reflected in the table below. Our Current, Quarterly, and Annual Reports are filed with the SEC under File No. 1-8207. Our Registration Statements have the file numbers noted wherever such statements are identified in the following list of exhibits. We will furnish a copy of any exhibit to shareholders without charge upon written request to Investor Relations, The Home Depot, Inc., 2455 Paces Ferry Road, Atlanta, Georgia 30339, via the internet at http://ir.homedepot.com, or by calling Investor Relations at (770) 384-2871.

Exhibit	Description	Reference
3.1	Amended and Restated Certificate of Incorporation of The Home Depot, Inc.	Form 10-Q for the fiscal quarter ended July 31, 2011, Exhibit 3.1
3.2	By-Laws of The Home Depot, Inc. (Amended and Restated Effective February 28, 2019)	Form 8-K filed on March 4, 2019, Exhibit 3.2
4.1	Indenture, dated as of May 4, 2005, between The Home Depot, Inc. and The Bank of New York Trust Company, N.A., as Trustee	Form S-3 (File No. 333-124699) filed May 6, 2005, Exhibit 4.1
4.2	Indenture, dated as of August 24, 2012 between The Home Depot, Inc. and Deutsche Bank Trust Company Americas, as Trustee	Form S-3 (File No. 333-183621) filed August 29, 2012, Exhibit 4.3
4.3	Form of 5.875% Senior Note due December 16, 2036	Form 8-K filed December 19, 2006, Exhibit 4.3
4.4	Form of 3.95% Senior Note due September 15, 2020	Form 8-K filed September 10, 2010, Exhibit 4.1
4.5	Form of 5.40% Senior Note due September 15, 2040	Form 8-K filed September 10, 2010, Exhibit 4.2

4.6	Form of 4.40% Senior Note due April 1, 2021	Form 8-K filed March 31, 2011, Exhibit 4.1
4.7	Form of 5.95% Senior Note due April 1, 2041	Form 8-K filed March 31, 2011, Exhibit 4.2
4.8	Form of 2.700% Senior Note due April 1, 2023	Form 8-K filed April 5, 2013, Exhibit 4.2
4.9	Form of 4.200% Senior Note due April 1, 2043	Form 8-K filed April 5, 2013, Exhibit 4.3
4.10	Form of 3.750% Senior Note due February 15, 2024	Form 8-K filed September 10, 2013, Exhibit 4.3

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Exhibit		Description	Reference
4.11		Form of 4.875% Senior Note due February 15, 2044	Form 8-K filed September 10, 2013, Exhibit 4.4
4.12		Form of 2.00% Senior Note due June 15, 2019	Form 8-K filed June 12, 2014, Exhibit 4.2
4.13		Form of 4.40% Senior Note due March 15, 2045	Form 8-K filed June 12, 2014, Exhibit 4.3
4.14		Form of 2.625% Senior Note due June 1, 2022	Form 8-K filed June 2, 2015, Exhibit 4.2
4.15		Form of 4.250% Senior Note due April 1, 2046	Form 8-K filed June 2, 2015, Exhibit 4.3
4.16		Form of 3.35% Note due September 15, 2025	Form 8-K filed September 15, 2015, Exhibit 4.3
4.17		Form of 2.000% Senior Note due April 1, 2021	Form 8-K filed February 12, 2016, Exhibit 4.2
4.18		Form of 3.000% Senior Note due April 1, 2026	Form 8-K filed February 12, 2016, Exhibit 4.3
4.19		Form of 4.250% Senior Note due April 1, 2046	Form 8-K filed February 12, 2016, Exhibit 4.4
4.20		Form of 2.125% Senior Note due September 15, 2026	Form 8-K filed September 15, 2016, Exhibit 4.2
4.21		Form of 3.500% Senior Note due September 15, 2056	Form 8-K filed September 15, 2016, Exhibit 4.3
4.22		Form of Floating Rate Note due June 5, 2020	Form 8-K filed June 5, 2017, Exhibit 4.2
4.23		Form of 1.800% Senior Note due June 5, 2020	Form 8-K filed June 5, 2017, Exhibit 4.3
4.24		Form of 3.900% Senior Note due June 15, 2047	Form 8-K filed June 5, 2017, Exhibit 4.4
4.25		Form of 2.800% Note due September 14, 2027	Form 8-K filed September 14, 2017, Exhibit 4.2
4.26		Form of Floating Rate Note due March 1, 2022	Form 8-K filed December 6, 2018, Exhibit 4.2
4.27		Form of 3.250% Senior Note due March 1, 2022	Form 8-K filed December 6, 2018, Exhibit 4.3
4.28		Form of 3.900% Senior Note due December 6, 2028	Form 8-K filed December 6, 2018, Exhibit 4.4
4.29		Form of 4.500% Senior Note due December 6, 2048	Form 8-K filed December 6, 2018, Exhibit 4.5
4.30		Form of 2.950% Note due June 15, 2019	Form 8-K filed June 17, 2019, Exhibit 4.2
4.31		Form of 3.900% Note due June 15, 2047	Form 8-K filed June 17, 2019, Exhibit 4.3
4.32		Form of 2.950% Note due June 15, 2029	Form 8-K filed January 13, 2020, Exhibit 4.2
4.32		Form of 3.125% Note due December 15, 2049	Form 8-K filed January 13, 2020, Exhibit 4.3
4.33	*	Description of Securities	
10.1	†	The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended August 4, 2002, Exhibit 10.1
10.2	†	Form of Executive Employment Death Benefit Agreement	Form 10-K for the fiscal year ended February 3, 2013, Exhibit 10.2
10.3	†	The Home Depot Deferred Compensation Plan for Officers (As Amended and Restated Effective January 1, 2008)	Form 8-K filed on August 20, 2007, Exhibit 10.1
10.4	†	Amendment No. 1 to The Home Depot Deferred Compensation Plan for Officers (As	Form 10-K for the fiscal year ended January 31, 2010, Exhibit 10.4

		Amended and Restated Effective January 1, 2008)	
10.5	†	The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended May 5, 2013, Exhibit 10.1
10.6	†	Amendment No. 1 to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan and The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan	Form 10-K for the fiscal year ended January 31, 2010, Exhibit 10.6
10.7	†	The Home Depot FutureBuilder Restoration Plan	Form 8-K filed on August 20, 2007, Exhibit 10.2
10.8	†	Amendment No.1 to The Home Depot FutureBuilder Restoration Plan	Form 10-K for the fiscal year ended February 2, 2014, Exhibit 10.8

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Exhibit		Description	Reference
10.9	†	The Home Depot, Inc. Nonemployee Directors' Deferred Stock Compensation Plan	Form 8-K filed on August 20, 2007, Exhibit 10.3
10.10	†	The Home Depot, Inc. Amended and Restated Management Incentive Plan (Effective November 21, 2013)	Form 10-K for the fiscal year ended February 2, 2014, Exhibit 10.10
10.11	†	The Home Depot, Inc. Amended and Restated Employee Stock Purchase Plan, as amended and restated effective July 1, 2012	Form 10-Q for the fiscal quarter ended April 29, 2012, Exhibit 10.1
10.12	†	Form of Executive Officer Restricted Stock Award Pursuant to The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended October 31, 2004, Exhibit 10.1
10.13	†	Form of Executive Officer Nonqualified Stock Option Award Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 13, 2009, Exhibit 10.4
10.14	†	Form of Deferred Share Award (Nonemployee Director) Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on November 15, 2007, Exhibit 10.1
10.15	†	Form of Equity Award Terms and Conditions Agreement Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 2, 2011, Exhibit 10.1
10.16	†	Form of Executive Officer Equity Award Terms and Conditions Agreement Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 6, 2013, Exhibit 10.1
10.17	†	Form of Executive Officer Equity Award Agreement (Nonqualified Stock Option) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 8, 2016, Exhibit 10.1
10.18	†	Form of Executive Officer Equity Award Agreement (Performance Based Restricted Stock) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 8, 2016, Exhibit 10.2
10.19	†	Form of Executive Officer Equity Award Agreement (Performance Shares) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 8, 2016, Exhibit 10.3
10.20	†	Form of Deferred Share Award (Nonemployee Director) Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 10-K for the fiscal year ended January 29, 2017, Exhibit 10.21
10.21	†	Form of Executive Officer Equity Award Agreement (Performance Shares) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on February 28, 2018, Exhibit 10.1
10.22	†	Form of Executive Officer Equity Award Agreement (Performance Based Restricted Stock) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on February 28, 2018, Exhibit 10.2
10.23	†	Form of Executive Officer Equity Award Agreement (Nonqualified Stock Option) Pursuant to The Home Depot, Inc. Amended	Form 8-K filed on February 28, 2018, Exhibit 10.3

		and Restated 2005 Omnibus Stock Incentive Plan	
10.24	†	Form of Executive Officer Equity Award Agreement (Performance Shares) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 4, 2019, Exhibit 10.1

Exhibit		Description	Reference
10.25	†	Form of Executive Officer Equity Award Agreement (Performance-Based Restricted Stock) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 4, 2019, Exhibit 10.2
10.26	†	Form of Executive Officer Equity Award Agreement (Nonqualified Stock Option) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 4, 2019, Exhibit 10.3
10.27	†	Form of Executive Officer Equity Award Agreement Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 2, 2020, Exhibit 10.1
10.28	†	Employment Arrangement between Craig A. Menear and The Home Depot, Inc., dated October 16, 2014	Form 10-Q for the fiscal quarter ended November 2, 2014, Exhibit 10.2
10.29	†	Employment Arrangement between Carol B. Tomé and The Home Depot, Inc., dated January 20, 2007	Form 8-K/A filed on January 24, 2007, Exhibit 10.2
10.30	†	Code Section 409A Amendment to Employment Arrangement between Carol B. Tomé and The Home Depot, Inc., dated December 21, 2012	Form 10-K for the fiscal year ended February 3, 2013, Exhibit 10.22
10.31	†	Employment Arrangement between Matthew A. Carey and The Home Depot, Inc., dated August 22, 2008, as amended on September 3, 2008	Form 10-K for the fiscal year ended January 30, 2011, Exhibit 10.36
10.32	†	Employment Arrangement between Mark Q. Holifield and The Home Depot, Inc., dated February 27, 2014	Form 10-K for the fiscal year ended February 1, 2015, Exhibit 10.30
10.33	†	Employment Arrangement between Edward P. Decker and The Home Depot, Inc., dated July 29, 2014	Form 10-K for the fiscal year ended January 28, 2018, Exhibit 10.31
10.34	†	Employment Arrangement between Richard V. McPhail and The Home Depot, Inc. dated August 13, 2019	Form 10-Q for the fiscal quarter ended November 3, 2019, Exhibit 10.1
10.35	†	Employment Arrangement between Ann-Marie Campbell and The Home Depot, Inc. dated January 12, 2016	Form 10-K for the fiscal year ended January 29, 2017, Exhibit 10.29
21	*	List of Subsidiaries of the Company	
23	*	Consent of Independent Registered Public Accounting Firm	
31.1	*	Certification of Chief Executive Officer and President pursuant to Rule 13a-14(a)	
31.2	*	Certification of Executive Vice President and Chief Financial Officer pursuant to Rule 13a-14(a)	
32.1	‡	Certification of Chief Executive Officer and President furnished pursuant Section 906 of the Sarbanes-Oxley Act of 2002	
32.2	‡	Certification of Executive Vice President and Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

101.INS	*	XBRL Instance Document - the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the Inline XBRL document
101.SCH	*	XBRL Taxonomy Extension Schema Document

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Exhibit	Description	Reference
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB *	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase Document	
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	

† *Management contract or compensatory plan or arrangement*

* *Filed herewith*

‡ *Furnished (and not filed) herewith pursuant to Item 601(b)(32)(ii) of the SEC's Regulation S-K*

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Date: March 25, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of March 25, 2020.

Signature	Title
/s/ CRAIG A. MENEAR Craig A. Menear	Chairman, Chief Executive Officer and President (Principal Executive Officer)
/s/ RICHARD V. MCPHAIL Richard V. McPhail	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ GERARD J. ARPEY Gerard J. Arpey	Director
/s/ ARI BOUSBIB Ari Bousbib	Director
/s/ JEFFERY H. BOYD Jeffery H. Boyd	Director
/s/ GREGORY D. BRENNEMAN Gregory D. Brenneman	Director
/s/ J. FRANK BROWN J. Frank Brown	Director
/s/ ALBERT P. CAREY Albert P. Carey	Director
/s/ HELENA B. FOULKES Helena B. Foulkes	Director
/s/ LINDA R. GOODEN Linda R. Gooden	Director
/s/ WAYNE M. HEWETT Wayne M. Hewett	Director
/s/ MANUEL KADRE Manuel Kadre	Director
/s/ STEPHANIE C. LINNARTZ	Director

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THE HOME DEPOT, INC.
SELECTED FINANCIAL DATA

amounts in millions, except per share data or where noted	Fiscal 2019	Fiscal 2018	Fiscal 2017	Fiscal 2016	Fiscal 2015
STATEMENT OF EARNINGS DATA					
Net sales ($)	110,225	108,203	100,904	94,595	88,519
Net sales increase (%)	1.9	7.2	6.7	6.9	6.4
Earnings before provision for income taxes ($)	14,715	14,556	13,698	12,491	11,021
Net earnings ($)	11,242	11,121	8,630	7,957	7,009
Net earnings increase (%)	1.1	28.9	8.5	13.5	10.5
Diluted earnings per share ($)	10.25	9.73	7.29	6.45	5.46
Diluted earnings per share increase (%)	5.3	33.5	13.0	18.1	15.9
Diluted weighted average number of common shares	1,097	1,143	1,184	1,234	1,283
Gross profit – % of sales	34.1	34.3	34.0	34.2	34.2
Total operating expenses – % of sales	19.7	20.0	19.5	20.0	20.9
Net earnings – % of sales	10.2	10.3	8.6	8.4	7.9
BALANCE SHEET DATA AND FINANCIAL RATIOS					
Total assets ($)	51,236	44,003	44,529	42,966	41,973
Working capital ($)	1,435	1,813	2,739	3,591	3,960
Merchandise inventories ($)	14,531	13,925	12,748	12,549	11,809
Net property and equipment ($) (1)	22,770	22,375	22,075	21,914	22,191
Long-term debt, excluding current installments ($)	28,670	26,807	24,267	22,349	20,789
Stockholders' (deficit) equity ($)	(3,116)	(1,878)	1,454	4,333	6,316
Total debt-to-equity (%)	(1,010.4)	(1,555.0)	1,858.9	544.7	335.9
Inventory turnover	4.9 x	5.1 x	5.1 x	4.9 x	4.9 x
STATEMENT OF CASH FLOWS DATA					
Depreciation and amortization ($)	2,296	2,152	2,062	1,973	1,863
Capital expenditures ($)	2,678	2,442	1,897	1,621	1,503
OTHER METRICS					
Return on invested capital (%)	45.4	44.8	34.2	31.4	28.1
Cash dividends per share ($)	5.44	4.12	3.56	2.76	2.36
Number of stores	2,291	2,287	2,284	2,278	2,274
Retail square footage at fiscal year-end	238	238	237	237	237
Comparable sales increase (%) (2) (4)	3.5	5.2	6.8	5.6	5.6
Sales per retail square foot ($) (3)	454.82	446.86	417.02	390.78	370.55
Customer transactions (3)	1,616	1,621	1,579	1,544	1,501
Average ticket ($) (3)	67.30	65.74	63.06	60.35	58.77
Number of associates at fiscal year-end (in thousands)	415	413	413	406	385

Note: Fiscal 2018 includes 53 weeks. All other fiscal periods disclosed include 52 weeks. This information should be read in conjunction with MD&A and our consolidated financial statements and related notes.

(1) *Includes finance leases.*

(2) *The calculations for fiscal 2017, fiscal 2016, and fiscal 2015 do not include results for Interline, which was acquired in fiscal 2015.*

(3) *These amounts do not include the results for Interline, which was acquired in fiscal 2015.*

(4)

Fiscal 2019 compares the 52 week period in fiscal 2019 to weeks 2 through 53 in fiscal 2018. Fiscal 2018 calculations do not include results from the 53rd week of fiscal 2018 and compare weeks 1 through 52 in fiscal 2018 to the 52 week period in fiscal 2017.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)
☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended February 3, 2019
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

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THE HOME DEPOT, INC.

(Exact name of registrant as specified in its charter)

Delaware State or other jurisdiction of incorporation or organization	**95-3261426** (I.R.S. Employer Identification No.)
2455 Paces Ferry Road, Atlanta, Georgia 30339 (Address of principal executive offices) (Zip Code)	Registrant’s telephone number, including area code: **(770) 433-8211**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.05 Par Value Per Share	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 ☒ Accelerated filer ☐ Non-accelerated filer ☐ 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 Act). Yes ☐ No ☒

The aggregate market value of voting common stock held by non-affiliates of the registrant on July 29, 2018 was $225.3 billion.

The number of shares outstanding of the registrant’s common stock as of March 8, 2019 was 1,103,903,507 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s proxy statement for the 2019 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K to the extent described herein.

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COMMONLY USED OR DEFINED TERMS

Term	Definition
ASR	Accelerated share repurchase
ASU	Accounting Standards Update
BODFS	Buy Online, Deliver From Store
BOPIS	Buy Online, Pick-up In Store
BORIS	Buy Online, Return In Store
BOSS	Buy Online, Ship to Store
CDP	The not-for-profit organization formerly known as the Carbon Disclosure Project
CFL	Compact fluorescent light
Comparable sales	As defined in the Results of Operations - Sales section of MD&A
DIFM	Do-It-For-Me
DIY	Do-It-Yourself
EH&S	Environmental, Health, and Safety
EPA	U.S. Environmental Protection Agency
ESPP	Employee Stock Purchase Plan
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
fiscal 2013	Fiscal year ended February 2, 2014 (includes 52 weeks)
fiscal 2014	Fiscal year ended February 1, 2015 (includes 52 weeks)
fiscal 2015	Fiscal year ended January 31, 2016 (includes 52 weeks)
fiscal 2016	Fiscal year ended January 29, 2017 (includes 52 weeks)
fiscal 2017	Fiscal year ended January 28, 2018 (includes 52 weeks)
fiscal 2018	Fiscal year ended February 3, 2019 (includes 53 weeks)
fiscal 2019	Fiscal year ended February 2, 2020 (includes 52 weeks)
FSC	Forest Stewardship Council
GAAP	U.S. generally accepted accounting principles
GRI	Global Reporting Initiative
Interline	Interline Brands, Inc.
IRS	Internal Revenue Service
LIBOR	London interbank offered rate
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MRO	Maintenance, repair, and operations
NOPAT	Net operating profit after tax
NYSE	New York Stock Exchange
PLCC	Private label credit card
Pro	Professional customer
Restoration Plan	Home Depot FutureBuilder Restoration Plan
ROIC	Return on invested capital
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
SG&A	Selling, general, and administrative
Tax Act	Tax Cuts and Jobs Act of 2017

CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements contained herein, as well as in other filings we make with the SEC and other written and oral information we release, 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 sales; effects of competition; implementation of store, interconnected retail, supply chain and technology initiatives; inventory and in-stock positions; state of the economy; state of the housing and home improvement markets; state of the credit markets, including mortgages, home equity loans, and consumer credit; issues related to the payment methods we accept; demand for credit offerings; management of relationships with our associates, suppliers and vendors; 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 impact and expected outcome of investigations, inquiries, claims, and litigation; the effect of accounting charges; the effect of adopting certain accounting standards; the impact of the Tax Act and other regulatory changes; 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, dependent on actions of third parties, or 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 Item 1A, "Risk Factors," and elsewhere in this report and also as may be described from time to time in our future reports we file with the SEC.

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 SEC.

PART I

Item 1. Business.

Introduction

The Home Depot, Inc. is the world's largest home improvement retailer based on net sales for fiscal 2018. We offer our customers a wide assortment of building materials, home improvement products, lawn and garden products, and décor products and provide a number of services, including home improvement installation services and tool and equipment rental. As of the end of fiscal 2018, we had 2,287 The Home Depot stores located throughout the U.S. (including the Commonwealth of Puerto Rico and the territories of the U.S. Virgin Islands and Guam), Canada, and Mexico. The Home Depot stores average approximately 104,000 square feet of enclosed space, with approximately 24,000 additional square feet of outside garden area. We also maintain a network of distribution and fulfillment centers, as well as a number of e-commerce websites. When we refer to "The Home Depot," the "Company," "we," "us" or "our" in this report, we are referring to The Home Depot, Inc. and its consolidated subsidiaries.

The Home Depot, Inc. is a Delaware corporation that was incorporated in 1978. Our Store Support Center (corporate office) is located at 2455 Paces Ferry Road, Atlanta, Georgia 30339. Our telephone number at that address is (770) 433-8211.

Our Business

Our Strategy

Our two primary objectives are growing market share with our customers and delivering shareholder value. We have historically been guided by three principles to drive growth: delivering an exceptional customer experience, leading in product authority, and maintaining a disciplined approach to capital allocation. These principles reflect how we fundamentally run our business. As the retail landscape continues to evolve, we must become more agile in responding to the changing competitive environment and customer preferences. Our customers expect to be able to buy how, when and where they want. We believe that providing a seamless and frictionless shopping experience across multiple channels, featuring curated and innovative product choices, personalized for the individual shopper's need, which are then delivered in a fast and cost-efficient manner, is a key enabler for our future success. This is what we call the One Home Depot experience. In late 2017, we announced that we would be investing approximately $11 billion over a multi-year period in our stores, associates, digital experience and supply chain to drive value for our customers, our associates, our suppliers and our shareholders. To accomplish this, we are executing against five key strategies designed to drive growth in our business:

- **Connect associates to customer needs**
- **Interconnected experience: stores to online, and online to stores**
- **Connect products and services to customer needs**
- **Connect product to shelf, site and customer**
- **Innovate our business model and value chain**

Taken together, these strategies are helping us to create the One Home Depot experience that our customers demand. Below are some of the ways we have been investing in that experience during fiscal 2018.

Connect Associates to Customer Needs

We serve two primary customer groups and have different approaches to meeting their needs:

- *DIY Customers.* These customers are typically home owners who purchase products and complete their own projects and installations. Our associates assist these customers both in our stores and through online resources and other media designed to provide product and project knowledge. We also offer a variety of clinics and workshops both to share this knowledge and to build an emotional connection with our DIY customers.

- *Professional Customers (or “Pros”)*. These customers are primarily professional renovators/ remodelers, general contractors, handymen, property managers, building service contractors and specialty tradesmen, such as electricians, plumbers and painters. These customers build, renovate, remodel, repair and maintain residential properties, multifamily properties, hospitality properties and commercial facilities, including education facilities, healthcare facilities, government buildings and office buildings. We recognize the great value our Pro customers provide to their clients, and we strive to make the Pros' job easier and help them grow their business. We believe that investments aimed at deepening our relationships with our Pro customers are yielding increased engagement and will continue to translate into incremental spend. As part of our continued commitment to invest in Pro customer relationships and the significant market opportunity these customers represent, we have created an enhanced Pro customer experience, both online and in-store.

At the end of 2018, we announced a new consolidated, go-to-market strategy for all of our Pro initiatives, including our MRO business (formerly known as Interline), under “The Home Depot Pro” banner. With The Home Depot Pro, Pros have access to a comprehensive offering that includes a combination of our vast store network, a best-in-class dedicated sales force, quality and affordable products from trusted brands, an extensive delivery network and online business solutions. We provide specialized programs such as an expanded MRO assortment, inventory management solutions, custom product offerings, in-store Pro desk and Pro services, and enhanced credit programs. We also provide and are continuously working to improve our delivery options for Pros, including pick up in-store, direct to job site delivery or ship-to home, to allow us to deliver when, where and how our customers demand. Online, our Pros receive a personalized experience based on their business, their needs, their industry and their purchasing behavior.

Pro customers are not one-size-fits-all, and The Home Depot Pro offers the level of value-added services that our diverse Pro customers demand. Our Pro loyalty program, Pro Xtra, provides Pros with benefits related to useful business services, exclusive product offers and a purchase monitoring tool to enable receipt lookup and job tracking of purchases across all forms of payment. We will continue to invest in the Pro customer experience to provide the services, solutions, support, and online tools they need to grow their businesses.

Intersecting our DIY customers and our Pros are our DIFM customers. These customers are typically home owners who engage with Pros to complete their project or installation, instead of completing the project or installation themselves. DIFM customers can purchase a variety of installation services in our stores, online or in their homes through in-home consultations. Our installation programs include many categories, such as flooring, cabinets and cabinet makeovers, countertops, furnaces and central air systems, and windows. We believe that changing demographics are increasing the demand for our installation services, particularly for our "baby boomer" customers who may have historically been DIY customers but who are now looking for someone to complete a project for them. We also believe our focus on serving the Pros who perform services for our DIFM customers will help us drive higher product sales.

We help our customers finance their projects by offering PLCC products through third-party credit providers. Our PLCC program includes other benefits, such as a 365-day return policy and, for our Pros, commercial fuel rewards and extended payment terms. In fiscal 2018, our customers opened approximately 4.8 million new The Home Depot private label credit accounts, and at the end of fiscal 2018 the total number of The Home Depot active account holders was approximately 16 million. PLCC sales accounted for approximately 23% of net sales in fiscal 2018.

We strive to provide an outstanding customer experience by putting customers first and taking care of our associates. Our customer experience begins with excellent customer service, and our associates are key to delivering on that experience. Our goal is to remove complexity and inefficient processes from the stores to allow our associates to focus on our customers. To this end, in fiscal 2018 we continued to invest in freight handling capabilities as part of an end-to-end initiative to optimize how product flows from suppliers to our shelves. Among other benefits, this initiative improves our on-shelf availability while decreasing the amount of time a store associate spends locating product on the receiving dock or in overhead storage. We deployed our new overhead management application on our FIRST phones, our web-enabled handheld devices, in fiscal 2018, which helps associates locate product stored in overhead storage quickly and accurately, saving time, improving the customer experience, and assisting with inventory management. In addition, we launched a new order management system called “Order Up” to consolidate certain of our existing legacy systems into a simple and intuitive user interface that requires minimal training and significantly decreases associate time required to create, sell, manage and edit orders. These efforts allow our associates to devote more time to the customer and make working at The Home Depot a better experience.

During fiscal 2018, we also enhanced our labor model to better align associate activity with customer needs, shifting from a model based on the number of transactions to one that correlates to the specific volume of activity within each store down to the department level. This change, which is now live in all stores, allows us to better allocate our workforce to provide a best-in-class customer experience.

At the end of fiscal 2018, we employed approximately 413,000 associates, of whom approximately 29,000 were salaried, with the remainder compensated on an hourly or temporary basis. To attract, reward, and retain qualified personnel, we seek to maintain competitive salary and wage levels in each market we serve. We also have a number of programs to recognize stores and individual associates for exceptional customer service. In fiscal 2018, as part of our strategic investments, we made a number of investments in our associates, including changes to our benefits programs to eliminate a waiting period for new hires and an enhanced paid maternity and parental leave program. We measure associate satisfaction regularly, and we believe that our employee relations are very good.

Interconnected Experience: Stores to Online, and Online to Stores

Our customers are shopping and interacting with us differently today than they did several years ago. As a result, we have taken a number of steps to provide our customers with a seamless and frictionless interconnected shopping experience across our stores, online, on the job site, and in their homes.

We do not view the customer experience as a specific transaction; rather, we believe it encompasses an entire process from inspiration and know-how, to purchase and fulfillment and to post-purchase care and support. From the inspirational point of the purchase journey to providing product know-how, we are investing in the infrastructure and processes needed to deliver the most relevant marketing messages to our customers based upon what is important for them today. This means adjusting messages so that they are personalized to the customer, such as showing product that completes their project based upon what was recently purchased, or highlighting products and services that are most relevant based upon changing weather conditions. Customers desire more personalized messaging, so we are focusing on connecting marketing activities with the online and in-store experiences to create a seamless series of contacts across all channels. Doing this well provides tremendous value to the customer, which in turn drives business results.

Our stores are the hub of our business, and we are investing to improve the customer shopping experience through easier navigation and increasing the convenience and speed of checkout. For several years, our associates have used our FIRST phones to help expedite the online order checkout process, locate products in the aisles and online, and check inventory on hand. In fiscal 2018, we empowered our customers with additional self-help tools. As part of our strategic investments, we have made progress with the implementation of our wayfinding sign and store refresh package, with almost 1,300 of our U.S. stores completed by the end of fiscal 2018, ahead of our original plan. This package includes new, more intuitive signage, better lighting, and basic store enhancements. We also continued the roll out of our re-designed front end area, including optimized layouts in all checkout areas and expanded and enhanced self-checkout options, as well as the addition of self-service lockers at the front entrance to offer convenient pick up of online orders.

We continue to make investments in our website and mobile apps. Enhancements to these digital properties are critical for our increasingly interconnected customers who research products online and then go into one of our stores to view the products in person or talk to an associate before making their purchase. We also continued to invest in a better digital navigation experience through store-specific maps, which allow customers to pinpoint the exact location of an item on their mobile devices. While in the store, customers may also go online to access ratings and reviews, compare prices, view our extended assortment and purchase products. During fiscal 2018, we continued to improve our e-commerce platform with a goal of driving a more personalized customer experience, as discussed above. To create an enhanced customer experience, we have been expanding our use of technology, including machine learning and data sciences. In fiscal 2018, we continued to enhance our search and mobile functionality, our checkout speed, and our chat functionality with our online contact centers.

We believe that by connecting our stores to online and online to our stores, we drive sales not just in-store but also online. In fiscal 2018, we saw increased traffic to our online properties and improved online sales conversion rates. Sales from our online channels increased over 26% during fiscal 2018. We will continue to leverage our physical and digital assets in a seamless and frictionless way to enhance the end-to-end customer experience.

Connect Products and Services to Customer Needs

We strive to be the number one retailer in product authority in home improvement by delivering product innovation, assortment and value and by offering a range of home improvement services. In fiscal 2018, we continued to introduce a wide range of innovative new products to our DIY and Pro customers, while remaining focused on offering everyday values in our stores and online.

To enhance our merchandising capabilities, we continued to make improvements to our information technology tools in fiscal 2018 to build an interconnected shopping experience that is tailored to our customers' persona, shopping context, and location; to ensure we have the best value in the market; and to optimize our product assortments.

A typical The Home Depot store stocks approximately 30,000 to 40,000 items during the year, including both national brand name and proprietary products. Our online product offerings complement our stores by serving as an extended aisle, and we offer a significantly broader product assortment through our websites, including homedepot.com, blinds.com, and thecompanystore.com, an online retailer of textiles and décor products that we acquired in late fiscal 2017 to expand our offering of online décor categories. We also routinely use our merchandising tools to refine our online assortment to balance the extended choice with a more curated offering.

In fiscal 2018, we introduced a number of innovative and distinctive products to our customers at attractive values. Examples of these new products include the Halo Color Selectable LED Downlight Retrofits, Behr Quick Dry Oil-Based Wood Finish, EGO® 56V Carbon Fiber PowerLoad Technology™ Trimmer, Andersen® LuminAire™ Retractable Screen, and Loctite® PL® Premium Max Construction Adhesive.

During fiscal 2018, we continued to offer value to our customers through a wide range of our proprietary and exclusive brands. Highlights of these offerings include Husky® hand tools, tool storage and work benches, water resistant gloves, dual beam flashlights, diamond tip screwdrivers, and 15-in-1 screwdriver/nut drivers; Everbilt® products, including hardware fasteners, plumbing parts, pumps and garbage disposals; Hampton Bay® lighting, ceiling fans and kitchen cabinets; Glacier Bay® bath fixtures and toilets; LifeProof® flooring including carpet, carpet with PetProof® technology, rigid core vinyl plank flooring, and new slip resistant tiles; EcoSmart® lighting, featuring all-glass LED light bulbs; Vigoro® lawn care products; Stanley® hand tools; Troy-Bilt® outdoor snow throwers; and RIDGID® and Ryobi® power tools, featuring Ryobi® 40V cordless push mowers. We will continue to assess our merchandising departments and product lines for opportunities to expand the assortment of products offered within The Home Depot's portfolio of proprietary and exclusive brands.

We also offer a number of services for our customers. As noted above, we provide a number of special programs for our Pro customers to meet their particular needs, and for our DIY and DIFM customers, we provide a number of installation services. We also provide tool and equipment rentals at over 1,200 locations across the U.S. and Canada, providing value and convenience for both our Pro and DIY customers.

Connect Product to Shelf, Site and Customer

We continue to drive productivity and efficiency by building best-in-class competitive advantages in our information technology and supply chain. These efforts are designed to ensure product availability for our customers while managing our costs, which results in higher returns for our shareholders. We recognize that our customers' expectations are changing rapidly and that our supply chain needs to be responsive to their expectations for how, when and where they choose to receive our products and services. We will continue to improve productivity and connectivity across our supply chain platforms to achieve the fastest, most efficient delivery capabilities in home improvement. We refer to this process, which encompasses a multi-year effort, as One Home Depot Supply Chain. During fiscal 2018, we continued to build the foundation to meet this goal.

We centrally forecast and replenish over 98% of our store products through sophisticated inventory management systems and utilize a network of over 200 distribution centers to serve both our stores' and customers' needs. This network includes multiple distribution center platforms in the U.S., Canada, and Mexico tailored to meet the needs of our stores and customers based on the types of products, location, transportation, and delivery requirements. These platforms primarily include rapid deployment centers, stocking distribution centers, bulk distribution centers, and direct fulfillment centers. As part of our investment in One Home Depot Supply Chain, we will add a number of different fulfillment facilities designed to help us meet our goal of reaching 90% of the U.S. population with same or next day delivery for an extended home improvement product offering, including big and bulky goods. These facilities include more direct fulfillment centers and market delivery operations, or MDOs, which function as local hubs to consolidate freight for dispatch to customers for the final mile of delivery. In fiscal 2018, we began piloting these facilities.

In addition to our distribution centers, we leverage our almost 2,000 U.S. stores as a network of convenient customer pick-up, return and delivery fulfillment locations. For customers who shop online and wish to pick-up or return merchandise at, or have merchandise delivered from, our U.S. stores, we have fully implemented our four interconnected retail programs, BOSS, BOPIS, BODFS, and BORIS, which we believe provide us with a competitive advantage. For example, as of the end of fiscal 2018, almost 50% of our U.S. online orders were picked up in the store. We also continue to focus on developing new capabilities to improve both the efficiency and customer experience in our store delivery program. For example, as of the end of fiscal 2018, we have rolled out van and car delivery to over 70% and 40% of the U.S. population, respectively, which provides our customers with a fast and affordable service for smaller deliveries.

A key component of our strategy is enabled through our technology portfolio, which consists of a network of systems that help us centrally manage customer orders and optimize where, when and how we fulfill them in order to maximize speed, efficiency, and the customer's experience. During fiscal 2018, we continued to improve our customer order management platform, or COM, and our delivery management system, which substantially improves our ability to sell and execute deliveries from our stores.

Innovate Our Business Model and Value Chain

In the changing retail environment, we must increase our investments to enhance the interconnected customer experience and position our Company for the future. Our customers view us as One Home Depot and expect us to function in an interconnected, seamless manner. To fully realize the One Home Depot experience, we will continue to connect the various aspects of our business and leverage our scale. We will also invest in our physical locations, our digital properties, our associates, products and innovation, our Pro and DIY customers, our services business, and our supply chain. Underlying all of these investments is our continued investment in information technology, which provides the backbone of the One Home Depot experience.

We continue to focus on driving productivity throughout the business. This process includes lowering our costs and reinvesting in the business to drive higher sales, creating what we refer to as a virtuous cycle. Through technology development, we drive productivity and speed. By focusing on the elimination of waste across the value chain, improved processes, and simplified systems, we support a cycle of productivity. This virtuous cycle has allowed us to improve the customer experience, increase our competitiveness in the market, increase sales, and deliver on shareholder value.

Our strategy to create the One Home Depot experience is driven by our desire to create value for all stakeholders, including our customers, our associates, our supplier partners, the communities we serve, and our shareholders. We are accelerating our investments in the business within our disciplined approach to capital allocation. Our first use of cash has been and will continue to be investing in our business, with use of the remainder guided by our shareholder return principles:

- *Dividend Principle.* We target a dividend payout of approximately 55% of prior year earnings per share, with the goal of increasing our dividend every year.
- *Return on Invested Capital Principle.* Our goal is to maintain a high return on invested capital, benchmarking all uses of excess liquidity against the value created for our shareholders through share repurchases.
- *Share Repurchase Principle.* After meeting the needs of the business, we use excess cash to repurchase shares as long as it is value creating.

In fiscal 2018, we drove higher returns on invested capital, which allowed us to return value to shareholders through $10.0 billion in share repurchases and $4.7 billion in cash dividends, as discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Competition

Our industry is highly competitive and evolving. As a result, we face competition for our products and services from a variety of retailers, suppliers, and service providers, ranging from traditional brick-and-mortar, to multichannel, to exclusively online. In each of the markets we serve, there are a number of other home improvement retailers; electrical, plumbing and building materials supply houses; and lumber yards. With respect to some products and services, we also compete with specialty design stores, showrooms, discount stores, local, regional and national hardware stores, paint stores, mail order firms, warehouse clubs, independent building supply stores, MRO companies, home décor retailers, and other retailers, as well as with providers of home improvement services and tool and equipment rental.

We compete, both in-store and online, primarily based on customer experience, price, quality, availability, product assortment, and delivery options. With respect to our stores, we also compete based on store location and appearance as well as presentation of merchandise. Our customers routinely use a variety of electronic devices and platforms to shop online, read product reviews, and compare prices, products, and delivery options, regardless of where or how they shop. Further, online and multichannel retailers are increasingly focusing on delivery services, with customers seeking faster, guaranteed delivery times and low-price or free shipping. Our ability to be competitive on delivery times and delivery costs depends on many factors, including the success of our investments in One Home Depot Supply Chain.

Sustainability Efforts

The Home Depot is committed to sustainable business practices – from the products that we offer to our customers, to the environmental impact of our operations, to our sourcing activities, to our involvement within the communities in which we do business. We believe these efforts continue to be successful in creating value for our customers, shareholders, and communities.

Environmentally Preferred Products and Programs. We offer a growing selection of environmentally preferred products, which supports sustainability and helps our customers save energy, water and money. Through our Eco Options® Program introduced in 2007, we have helped our customers more easily identify products that meet specifications for energy efficiency, water conservation, healthy home, clean air and sustainable forestry. As of the end of fiscal 2018, our Eco Options® Program included over 20,000 products. Through this program, we sell ENERGY STAR® certified appliances, LED light bulbs, tankless water heaters, and other products that enable our customers to save on their utility bills. We estimate that in fiscal 2018 we helped customers save over $1.2 billion in electricity costs through sales of energy-saving products. We also estimate our customers saved over 59 billion gallons of water resulting in over $655 million in water bill savings in fiscal 2018 through the sales of our WaterSense®-labeled bath faucets, showerheads, aerators, toilets, and irrigation controllers.

In 2017, we announced customer energy, greenhouse gas emissions, and water goals, anchored by our sale of ENERGY STAR® and WaterSense® products. We are committed to providing innovative products that, through proper use, will help to reduce North American customers' electricity costs by more than $2.8 billion; greenhouse gas emissions by 20 million metric tons; and water consumption by 250 billion gallons by 2020. We also updated our wood purchasing policy to require FSC certification for wood products from the Amazon basin, Congo basin, Papua New Guinea, and the Solomon Islands. Our 2018 Responsibility Report, available on our website at https://corporate.homedepot.com/responsibility, describes many of our other environmentally preferred products that promote energy efficiency, water conservation, clean air, and a healthy home.

We continue to offer store recycling programs in the U.S., such as an in-store CFL bulb recycling program launched in 2008. This service is offered to customers free of charge and is available in all U.S. stores. We also maintain an in-store rechargeable battery recycling program. Launched in 2001 and currently done in partnership with Call2Recycle, this program is also available to customers free of charge in all U.S. stores. Through our recycling programs, in fiscal 2018 we helped recycle over 888,000 pounds of CFL bulbs and over 1 million pounds of rechargeable batteries. Since program inception, we have helped recycle 10 million pounds of rechargeable batteries. In fiscal 2018, we also recycled over 230,000 lead acid batteries collected from our customers under our lead acid battery exchange program, as well as over 247,000 tons of cardboard through a nationwide cardboard recycling program across our U.S. operations. We believe our environmentally-preferred product selection and our recycling efforts drive sales, which in turn benefits our shareholders, in addition to our customers, the communities in which we work and live, and the environment.

Commitment to Sustainability and Environmentally Responsible Operations. The Home Depot also focuses on sustainable operations and is committed to conducting business in an environmentally responsible manner. This commitment impacts all areas of our operations, including energy usage, supply chain and packaging, and store construction and maintenance. In 2015, we announced two major sustainability commitments for 2020. Our first goal is to reduce our U.S. stores' energy use by 20% over 2010 levels, and our second goal is to produce and procure, on an annual basis, 135 megawatts of energy for our stores through renewable or alternate energy sources, such as wind, solar and fuel cell technology. As of the end of fiscal 2018, we have 45 stores with solar rooftop power and over 202 fuel cell systems that are either operational or in development, which puts us on track to exceed both of our goals before the end of 2020. In 2018, we set a Science Based Target goal in connection with our annual CDP reporting (discussed below) with commitments to a 2.1% annual reduction in carbon emissions. Our goal is to achieve a 39.9% reduction by 2030 and a 50.4% reduction by 2035. We are committed to implementing strict operational standards that establish energy efficient operations in all of our U.S. facilities and continuing to invest in renewable and alternative energy. Additionally, we implemented a rainwater reclamation project in our stores in 2010. As of the end of fiscal 2018, 148 of our stores used reclamation tanks to collect rainwater and condensation from HVAC units and garden center roofs, which is in turn used to water plants in our outside garden centers. Our 2018 Responsibility Report, which uses the Global Reporting Initiative, or GRI, framework for sustainability reporting, provides more information on sustainability efforts in other aspects of our operations.

***Awards and Recognition*.** Our commitment to corporate sustainability has resulted in a number of environmental awards and recognitions. From 2008 to 2017, we received 21 significant awards from three EPA programs. Multiple times over these years, the ENERGY STAR® division named us "Retail Partner of the Year – Sustained Excellence" for our overall excellence in energy efficiency, and we received the WaterSense® Sustained Excellence Award for our overall excellence in water efficiency. We have also received the EPA's "SmartWay Excellence Award," which recognizes The Home Depot as an industry leader in freight supply chain environmental performance and energy efficiency.

We participate in the CDP reporting process. CDP is an independent, international, not-for-profit organization providing a global system for companies and cities to measure, disclose, manage and share environmental information. In January 2019, we received a score of A from CDP, reflecting a high level of action on climate change mitigation, adaptation and transparency. We also were named an industry leader by CDP.

Sourcing and Quality Assurance

We maintain a global sourcing program to obtain high-quality and innovative products directly from manufacturers around the world. During fiscal 2018, in addition to our U.S. sourcing operations, we maintained sourcing offices in Mexico, Canada, China, India, Southeast Asia and Europe. Our suppliers are contractually obligated to ensure that their products comply with applicable international, federal, state and local laws. All of our vendors and service providers must comply with our responsible sourcing standards, which cover a variety of expectations across multiple areas of social compliance, including supply chain transparency, sources of supply, and child and forced labor. In addition, we have both quality assurance and engineering resources dedicated to establishing criteria and overseeing compliance with safety, quality and performance standards for our proprietary branded products. We also have a global responsible sourcing program designed to ensure that suppliers adhere to high standards of social and environmental responsibility. Our 2018 Responsible Sourcing Report, available on our website at https://corporate.homedepot.com/responsibility/sourcing-responsibility, provides more information about this program.

Safety

We are strongly committed to maintaining a safe shopping and working environment for our customers and associates. Our EH&S function is dedicated to ensuring the health and safety of our customers and associates, with trained associates who evaluate, develop, implement and enforce policies, processes and programs on a Company-wide basis. Our EH&S policies are woven into our everyday operations and are part of The Home Depot culture. Some common program elements include: daily store inspection checklists (by department); routine follow-up audits from our store-based safety team members and regional, district and store operations field teams; equipment enhancements and preventative maintenance programs to promote physical safety; departmental merchandising safety standards; training and education programs for all associates, with varying degrees of training provided based on an associate's role and responsibilities; and awareness, communication and recognition programs designed to drive operational awareness and an understanding of EH&S issues.

Intellectual Property

Our business has one of the most recognized brands in North America. As a result, we believe that The Home Depot® trademark has significant value and is an important factor in the marketing of our products, e-commerce, stores and business. We have registered or applied for registration of trademarks, service marks, copyrights and internet domain names, both domestically and internationally, for use in our business, including our expanding proprietary brands such as HDX®, Husky®, Hampton Bay®, Home Decorators Collection®, Glacier Bay® and Vigoro®. We also maintain patent portfolios relating to some of our products and services and seek to patent or otherwise protect innovations we incorporate into our products or business operations.

Seasonality

Our business is subject to seasonal influences. Generally, our highest volume of sales occurs in our second fiscal quarter, and the lowest volume occurs either during our first or fourth fiscal quarter.

Available Information

Our internet website is www.homedepot.com. We make available on the Investor Relations section of our website, free of charge, our Annual Reports to shareholders, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and Forms 3, 4 and 5, and amendments to those reports, as soon as reasonably practicable after filing such documents with, or furnishing such documents to, the SEC.

We include our website addresses throughout this report for reference only. The information contained on our websites is not incorporated by reference into this report.

Other Financial Information

For information on key financial highlights, including historical revenues, profits and total assets, see the "Selected Financial Data" on page F-1 of this report and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 1A. Risk Factors.

Our business, results of operations, and financial condition are subject to numerous risks and uncertainties. In connection with any investment decision with respect to our securities, you should carefully consider the following risk factors, as well as the other information contained in this report and our other filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. Should any of these risks materialize, our business, results of operations, financial condition and future prospects could be negatively impacted, which in turn could affect the trading value of our securities. You should read these Risk Factors in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and our consolidated financial statements and related notes in Item 8.

Strong competition could adversely affect prices and demand for our products and services and could decrease our market share.

Our industry is highly competitive and evolving. As a result, we face competition for our products and services from a variety of retailers, suppliers, and service providers, ranging from traditional brick-and-mortar, to multichannel, to exclusively online. The internet facilitates competitive entry, price transparency, and comparison shopping, increasing the level of competition we face. In each of the markets we serve, there are a number of other home improvement retailers; electrical, plumbing and building materials supply houses; and lumber yards. With respect to some products and services, we also compete with specialty design stores, showrooms, discount stores, local, regional and national hardware stores, paint stores, mail order firms, warehouse clubs, independent building supply stores, MRO companies, home décor retailers, and other retailers, as well as with providers of home improvement services and tool and equipment rental.

We compete, both in-store and online, primarily based on customer experience, price, quality, availability, product assortment, and delivery options. With respect to our stores, we also compete based on store location and appearance as well as presentation of merchandise. Our customers routinely use a variety of electronic devices and platforms to shop online, read product reviews, and compare prices, products, and delivery options, regardless of where or how they shop. Further, online and multichannel retailers are increasingly focusing on delivery services, with customers seeking faster, guaranteed delivery times and low-price or free shipping. Our ability to be competitive on delivery times and delivery costs depends on many factors, including the success of our investments in One Home Depot Supply Chain, and our failure to successfully manage these factors and offer competitive delivery options could negatively impact the demand for our products and our profit margins.

We use our marketing, advertising and promotional programs to drive customer traffic and compete more effectively, and we must regularly assess and adjust our efforts to address changes in the competitive landscape. Intense competitive pressures from one or more of our competitors, such as through aggressive promotional pricing or liquidation events, or our inability to adapt effectively and quickly to a changing competitive landscape, could adversely affect our prices, our margins, or demand for our products and services. If we are unable to timely and appropriately respond to these competitive pressures, including through the delivery of a superior customer experience or maintenance of effective marketing, advertising or promotional programs, our market share and our financial performance could be adversely affected.

We may not timely identify or effectively respond to consumer needs, expectations or trends, which could adversely affect our relationship with customers, our reputation, the demand for our products and services, and our market share.

The success of our business depends in part on our ability to identify and respond promptly to evolving trends in demographics; consumer preferences, expectations and needs; and unexpected weather conditions or natural disasters, while also managing appropriate inventory levels in our stores and distribution or fulfillment centers and maintaining an excellent customer experience. It is difficult to successfully predict the products and services our customers will demand. In addition, each of our primary customer groups has different needs and expectations, many of which evolve as the demographics in a particular customer group change. We also need to offer more localized assortments of our merchandise to appeal to local cultural and demographic tastes within each customer group. If we do not successfully differentiate the shopping experience to meet the individual needs and expectations of – or within – a customer group, we may lose market share with respect to those customers.

Customer expectations about the methods by which they purchase and receive products or services are also becoming more demanding. As noted above, customers routinely use technology and a variety of electronic devices and platforms to rapidly compare products and prices, determine real-time product availability, and purchase products. Once products are purchased, customers are seeking alternate options for delivery of those products, and they often expect quick, timely, and low-price or free delivery. We must continually anticipate and adapt to these changes in the purchasing process. We have our BOSS, BOPIS, BODFS and direct fulfillment delivery options, but we cannot guarantee that these or future programs will be maintained and implemented successfully or that we will be able to meet customer expectations on delivery times, options and costs. Customers are also using social media to provide feedback and information about our Company and products and services in a manner that can be quickly and broadly disseminated. To the extent a customer has a negative experience and shares it over social media, it may impact our brand and reputation.

Further, we have an aging store base that requires maintenance, investment, and space reallocation initiatives to deliver the shopping experience that our customers desire. Our investments in our stores may not deliver the relevant shopping experience our customers expect. We must also maintain a safe store environment for our customers and associates, as well as to protect against loss or theft of our inventory (also called "shrink").

Failure to improve and maintain our stores, utilize our store space effectively, and offer a safe shopping environment; to provide a compelling online presence; to timely identify or respond to changing consumer preferences, expectations and home improvement needs and maintain appropriate inventory; to provide quick and low-price or free delivery alternatives; to differentiate the customer experience for our primary customer groups; and to effectively implement an increasingly localized merchandising assortment could adversely affect our relationship with customers, our reputation, the demand for our products and services, and our market share.

The implementation of our store, interconnected retail, supply chain and technology initiatives could disrupt our operations in the near term, and these initiatives might not provide the anticipated benefits or might fail.

We are substantially increasing our investments to create the One Home Depot experience, including significant investments over the next several years to build the One Home Depot Supply Chain. These initiatives are designed to streamline our operations to allow our associates to continue to provide high-quality service to our customers; simplify customer interactions; provide our customers with a more interconnected retail experience; and create the fastest, most efficient delivery network for home improvement products. Failure to choose the right investments and implement them in the right manner and at the right pace could disrupt our operations. The One Home Depot initiative will require significant investment in our operations and systems, as well as the development and execution of new processes, systems and support. If we are unable to effectively manage the volume and nature of these changes, our business operations and financial results could be materially and adversely affected. The cost and potential problems, defects of design and interruptions associated with the implementation of these initiatives, including those associated with managing third-party service providers, employing new web-based tools and services, implementing new technology, implementing and restructuring support systems and processes, and addressing impacts on inventory levels, could disrupt or reduce the efficiency of our operations in the near term, lead to product availability issues, and impact profitability. Further, accomplishing these initiatives will require a substantial investment in additional information technology personnel and other specialized personnel. We may face significant competition in the market for these resources and may not be successful in our hiring efforts. In addition, our store and interconnected retail initiatives, One Home Depot Supply Chain, and new or upgraded information technology systems might not provide the anticipated benefits, it might take longer than expected to realize the anticipated benefits, or the initiatives might fail altogether, each of which could adversely impact our competitive position and our financial condition, results of operations, or cash flows.

Our success depends upon our ability to attract, develop and retain highly qualified associates while also controlling our labor costs.

Our customers expect a high level of customer service and product knowledge from our associates. To meet the needs and expectations of our customers, we must attract, develop and retain a large number of highly qualified associates while at the same time controlling labor costs. Our ability to control labor costs is subject to numerous external factors, including prevailing wage rates and health and other insurance costs, as well as the impact of legislation or regulations governing labor relations, minimum wage, and healthcare benefits. In addition, to support our strategic initiatives, including One Home Depot Supply Chain, and the related technology investments needed to implement our strategic investments, we must attract and retain a large number of skilled professionals, including technology professionals. The market for these professionals is increasingly competitive. An inability to provide wages and/or benefits that are competitive within the markets in which we operate could adversely affect our ability to retain and attract associates. Further, changes in market compensation rates may adversely affect our labor costs. In addition, we compete with other retail businesses for many of our associates in hourly positions, and we invest significant resources in training and motivating them to maintain a high level of job satisfaction. These positions have historically had high turnover rates, which can lead to increased training and retention costs, particularly in a competitive labor market. There is no assurance that we will be able to attract or retain highly qualified associates in the future.

A failure of a key information technology system or process could adversely affect our business.

We rely extensively on information technology systems, some of which are managed or provided by third-party service providers, to analyze, process, store, manage and protect transactions and data. In managing our business, we also rely heavily on the integrity of, security of, and consistent access to, this operational and financial data for information such as sales, customer data, merchandise ordering, inventory replenishment and order fulfillment. For these information technology systems and processes to operate effectively, we or our service providers must maintain and update them. Our systems and the third-party systems with which we interact are subject to damage or interruption from a number of causes, including power outages; computer and telecommunications failures; computer viruses; security breaches; cyber-attacks, including the use of malicious codes, worms, phishing and denial of service attacks, and ransomware; catastrophic events such as fires, floods, earthquakes, tornadoes, or hurricanes; acts of war or terrorism; and design or usage errors by our associates, contractors or third-party service providers. Although we and our third-party service providers seek to maintain our respective systems effectively and to successfully address the risk of compromise of the integrity, security and consistent operations of these systems, such efforts may not be successful. As a result, we or our service providers could experience errors, interruptions, delays or cessations of service in key portions of our information technology infrastructure, which could significantly disrupt our operations and be costly, time consuming and resource-intensive to remedy.

Disruptions in our customer-facing technology systems could impair our interconnected retail strategy and give rise to negative customer experiences.

Through our information technology systems, we are able to provide an improved overall shopping and interconnected retail experience that empowers our customers to shop and interact with us from a variety of electronic devices and platforms. We use our digital platforms both as sales channels for our products and also as methods of providing inspiration, as well as product, project, and other relevant information to our customers to drive sales, regardless of whether they occur in-store or online. We have multiple online communities and knowledge centers that allow us to inform, assist and interact with our customers. The retail industry is continually evolving and expanding, and we must effectively respond to new developments and changing customer preferences with respect to an interconnected experience. We continually seek to enhance all of our online properties to provide an attractive, user-friendly interface for our customers. Disruptions, failures or other performance issues with these customer-facing technology systems could impair the benefits that they provide to our business and negatively affect our relationship with our customers.

Disruptions in our supply chain and other factors affecting the distribution of our merchandise could adversely impact our business.

A disruption within our logistics or supply chain network could adversely affect our ability to deliver inventory in a timely manner, which could impair our ability to meet customer demand for products and result in lost sales, increased supply chain costs, or damage to our reputation. Such disruptions may result from damage or destruction to our distribution centers; weather-related events; natural disasters; trade policy changes or restrictions; tariffs or import-related taxes; third-party strikes, lock-outs, work stoppages or slowdowns; shipping capacity constraints; third-party contract disputes; supply or shipping interruptions or costs; military conflicts; acts of terrorism; or other factors beyond our control. Any such disruption could negatively impact our financial performance or financial condition.

If our efforts to maintain the privacy and security of customer, associate, supplier and Company information are not successful, we could incur substantial costs and reputational damage and could become subject to litigation and enforcement actions.

Our business, like that of most retailers, involves the receipt, storage, management and transmission of customers' personal information, preferences, and payment card information, as well as other confidential information, such as personal information about our associates and our suppliers and confidential

Company information. We also work with third-party service providers and vendors that provide technology, systems and services that we use in connection with the receipt, storage and transmission of this information. Our information systems, and those of our third-party service providers and vendors, are vulnerable to an increasing threat of continually evolving data protection and cybersecurity risks. Unauthorized parties have in the past gained access, and will continue to attempt to gain access to, these systems or our information through fraud or other means of deceiving our associates, third-party service providers or vendors. Hardware, software or applications we develop or obtain from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. The methods used to obtain unauthorized access, disable or degrade service, or sabotage systems are also constantly changing and evolving and may be difficult to anticipate or detect for long periods of time. We have implemented and regularly review and update our systems, processes, and procedures to protect against unauthorized access to or use of data and to prevent data loss. However, the ever-evolving threats mean we and our third-party service providers and vendors must continually evaluate and adapt our respective systems and processes and overall security environment, as well as those of any companies we acquire. There is no guarantee that these measures will be adequate to safeguard against all data security breaches, system compromises or misuses of data. As we experienced in connection with the data breach we discovered in the third quarter of fiscal 2014, any significant compromise or breach of our data security, whether external or internal, or misuse of customer, associate, supplier or Company data, could result in significant costs, including costs to investigate and remediate, as well as lost sales, fines, lawsuits, and damage to our reputation. In addition, the regulatory environment related to data privacy and cybersecurity is constantly changing, with new and increasingly rigorous requirements applicable to our business, and the implementation of these requirements has become more complex. Maintaining our compliance with those requirements may require significant effort and cost, and failure to comply with applicable requirements could subject us to fines, sanctions, governmental investigations, or lawsuits.

We are subject to payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability, and potentially disrupt our business.

We accept payments using a variety of methods, including cash, checks, credit and debit cards, PayPal, our PLCCs, an installment loan program, trade credit, and gift cards, and we may offer new payment options over time. Acceptance of these payment options subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. These requirements may change over time or be reinterpreted, making compliance more difficult or costly. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could potentially disrupt our business. The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. As a result, our business and operating results could be adversely affected.

Uncertainty regarding the housing market, economic conditions, political climate and other factors beyond our control could adversely affect demand for our products and services, our costs of doing business, and our financial performance.

Our financial performance depends significantly on the stability of the housing and home improvement markets, as well as general economic conditions, including changes in gross domestic product. Adverse conditions in or uncertainty about these markets, the economy or the political climate could adversely impact our customers' confidence or financial condition, causing them to decide against purchasing home improvement products and services, causing them to delay purchasing decisions, or impacting their ability to pay for products and services. Other factors beyond our control – including unemployment and foreclosure rates; inventory loss due to theft; interest rate fluctuations; fuel and other energy costs; labor and healthcare costs; the availability of financing; the state of the credit markets, including mortgages, home equity loans and consumer credit; weather; natural disasters; acts of terrorism; and other conditions beyond our control – could further adversely affect demand for our products and services, our costs of doing business, and our financial performance.

Our business is subject to seasonal influences, and uncharacteristic or significant weather conditions, alone or together with natural disasters, could impact our operations.

Natural disasters, such as hurricanes and tropical storms, fires, floods, tornadoes, and earthquakes; unseasonable, or unexpected or extreme weather conditions; or similar disruptions and catastrophic events can affect consumer spending and confidence and consumers' disposable income, particularly with respect to home improvement or construction projects, and could have an adverse effect on our financial performance. These types of events can also adversely affect our work force and prevent associates and customers from reaching our stores and other facilities. They can also, temporarily or on a long-term basis, disrupt or disable operations of stores, support centers, and portions of our supply chain and distribution network, including causing reductions in the availability of inventory and disruption of utility services. In addition, these events may affect our information systems, resulting in disruption to various aspects of our operations, including our ability to transact with customers and fulfill orders and to communicate with our stores. Unseasonable, unexpected or extreme weather conditions such as excessive precipitation, warm temperatures during the winter season, or prolonged or extreme periods of warm or cold temperatures could render a portion of our inventory incompatible with customer needs. As a consequence of these or other catastrophic or uncharacteristic events, we may experience interruption to our operations, increased costs, or losses of property, equipment or inventory, which would adversely affect our revenue and profitability.

If we fail to identify and develop relationships with a sufficient number of qualified suppliers, or if our suppliers experience financial difficulties or other challenges, our ability to timely and efficiently access products that meet our high standards for quality could be adversely affected.

We buy our products from suppliers located throughout the world. Our ability to continue to identify and develop relationships with qualified suppliers who can satisfy our high standards for quality and responsible sourcing, as well as our need to access products in a timely and efficient manner, is a significant challenge. Our ability to access products from our suppliers can be adversely affected by political instability, military conflict, acts of terrorism, the financial instability of suppliers, suppliers' noncompliance with applicable laws, trade restrictions, tariffs, currency exchange rates, any disruptions in our suppliers' logistics or supply chain networks or information technology systems, and other factors beyond our or our suppliers' control.

If we are unable to effectively manage and expand our alliances and relationships with selected suppliers of both brand name and proprietary products, we may be unable to effectively execute our strategy to differentiate ourselves from our competitors.

As part of our focus on product differentiation, we have formed strategic alliances and exclusive relationships with selected suppliers to market products under a variety of well-recognized brand names. We have also developed relationships with selected suppliers to allow us to market proprietary products that are comparable to national brands. Our proprietary products differentiate us from other retailers, generally carry higher margins than national brand products, and represent a growing portion of our business. If we are unable to manage and expand these alliances and relationships or identify alternative sources for comparable brand name and proprietary products, we may not be able to effectively execute product differentiation, which may impact our sales and gross margin results.

Failure to achieve and maintain a high level of product and service quality and safety could damage our image with customers, expose us to litigation, and negatively impact our sales and results of operations.

Product and service quality issues could negatively impact customer confidence in our brands and our Company. If our product and service offerings do not meet applicable safety standards or our customers' expectations regarding safety or quality, we could experience lost sales and increased costs and be exposed to legal, financial and reputational risks, as well as governmental enforcement actions. Actual, potential or perceived product safety concerns, including health-related concerns, could expose us to litigation, as well as government enforcement actions, and result in costly product recalls and other liabilities. We seek but may not be successful in obtaining contractual indemnification and insurance coverage from our vendors. If we do not have adequate contractual indemnification or insurance available, such claims could have an adverse effect on our business, financial condition and results of operations. Even with adequate insurance and indemnification, our reputation as a provider of high quality products and services, including both national brand names and our proprietary products, could suffer, damaging our reputation and impacting customer loyalty. In addition, we and our customers have expectations around responsible sourcing. All of our vendors and service providers must comply with our responsible sourcing standards, which cover a variety of expectations across multiple areas of social compliance, including supply chain transparency, sources of supply, and child and forced labor. We have a responsible sourcing audit process, but we are also dependent on our vendors and service providers to ensure that the products and services we provide comply with our standards.

Our proprietary products subject us to certain increased risks, including regulatory, product liability, supplier relations, and reputational risks.

As we expand our proprietary product offerings, in addition to other product-related risks discussed herein, we may become subject to increased risks due to our greater role in the design, manufacture, marketing and sale of those products. The risks include greater responsibility to administer and comply with applicable regulatory requirements, increased potential product liability and product recall exposure, and increased potential reputational risks related to the responsible sourcing of those products. To effectively execute on our product differentiation strategy, we must also be able to successfully protect our proprietary rights and successfully navigate and avoid claims related to the proprietary rights of third parties. In addition, an increase in sales of our proprietary products may adversely affect sales of our suppliers’ products, which in turn could adversely affect our relationships with certain of our suppliers. Any failure to appropriately address some or all of these risks could damage our reputation and have an adverse effect on our business, results of operations, and financial condition.

If we are unable to effectively manage our installation services business, we could suffer lost sales and be subject to fines, lawsuits and reputational damage, or the loss of our general contractor licenses.

We act as a general contractor to provide installation services to our DIFM customers through professional third-party installers. As such, we are subject to regulatory requirements and risks applicable to general contractors, which include management of licensing, permitting and quality of work performed by our third-party installers. We have established processes and procedures to manage these requirements and ensure customer satisfaction with the services provided by our third-party installers. However, if we fail to manage these processes effectively or to provide proper oversight of these services, we could suffer lost sales, fines, lawsuits, and governmental enforcement actions for violations of regulatory requirements, as well as for property damage or personal injury. In addition, we may suffer damage to our reputation or the loss of our general contractor licenses, which could adversely affect our business.

Our strategic transactions involve risks, which could have an adverse impact on our financial condition and results of operation, and we may not realize the anticipated benefits of these transactions.

We regularly consider and enter into strategic transactions, including mergers, acquisitions, investments, alliances, and other growth and market expansion strategies, with the expectation that these transactions will result in increases in sales, cost savings, synergies and various other benefits. Assessing the viability and realizing the benefits of these transactions is subject to significant uncertainty. For each of our acquisitions, we need to successfully integrate the target company’s products, services, associates and systems into our business operations. Integration can be a complex and time-consuming process, and if the integration is not fully successful or is delayed for a material period of time, we may not achieve the anticipated synergies or benefits of the acquisition. Furthermore, even if the target companies are successfully integrated, the acquisitions may fail to further our business strategy as anticipated, expose us to increased competition or challenges with respect to our products or services, and expose us to additional liabilities. Any impairment of goodwill or other intangible assets acquired in a strategic transaction may reduce our earnings.

Our costs of doing business could increase as a result of changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations.

We are subject to various federal, state and local laws and regulations that govern numerous aspects of our business. In recent years, a number of new laws and regulations have been adopted, and there has been expanded enforcement of certain existing laws and regulations by federal, state and local agencies. These laws and regulations, and related interpretations and enforcement activity, may change as a result of a variety of factors, including political, economic or social events. Changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations governing minimum wage or living wage requirements; the classification of exempt and non-exempt employees; the distinction between employees and contractors; other wage, labor or workplace regulations; healthcare; data protection and cybersecurity; the sale and pricing of some of our products; transportation; logistics; international trade; supply chain transparency; taxes; unclaimed property; energy costs and consumption; or environmental matters, including with respect to our installation services business, could increase our costs of doing business or impact our operations.

In fiscal 2017, Congress enacted the Tax Act, which significantly changes how the U.S. taxes corporations. During fiscal 2018, additional guidance related to the Tax Act was issued by the U.S. Department of the Treasury and the IRS. The Tax Act requires complex computations to be performed that were not previously required under U.S. tax law, significant judgments to be made in interpretation of the provisions of the Tax Act, significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S.

Department of the Treasury, the IRS, and other standard-setting bodies could interpret or issue guidance on how provisions of the Tax Act will be applied or otherwise administered that is different from our interpretations. Further, uncertainties also exist in terms of how U.S. states and foreign countries within which we operate will react to these U.S. federal income tax changes, which could have additional impacts on our effective tax rate.

If we cannot successfully manage the unique challenges presented by international markets, we may not be successful in our international operations and our sales and profitability may be negatively impacted.

Our ability to successfully conduct retail operations in, and source products and materials from, international markets is affected by many of the same risks we face in our U.S. operations, as well as unique costs and difficulties of managing international operations. Our international operations, including any expansion in international markets, may be adversely affected by local laws and customs, U.S. laws applicable to foreign operations and other foreign legal and regulatory constraints, as well as political and economic conditions. Risks inherent in international operations also include, among others, potential adverse tax consequences; potential tariffs and other import-related taxes and controls; greater difficulty in enforcing intellectual property rights; risks associated with the Foreign Corrupt Practices Act and local anti-bribery law compliance; and challenges in our ability to identify and gain access to local suppliers. For example, there are growing concerns regarding trade relations between the U.S. and China, as both countries have indicated their intentions to impose significant tariffs on the importation of certain product categories, as well as concerns related to the renegotiation of certain other trade agreements, including the North American Free Trade Agreement. As a significant portion of our retail products are sourced, directly or indirectly, outside of the U.S., major changes in tax or trade policies, tariffs or trade relations could adversely impact the cost of, demand for, and profitability of retail product sales in our U.S. locations. Other countries may also change their business and trade policies in anticipation of or in response to increased import tariffs and other changes in U.S. trade policy and regulations. In addition, our operations in international markets create risk due to foreign currency exchange rates and fluctuations in those rates, which may adversely impact our sales and profitability.

The inflation or deflation of commodity prices could affect our prices, demand for our products, our sales and our profit margins.

Prices of certain commodity products, including lumber and other raw materials, are historically volatile and are subject to fluctuations arising from changes in domestic and international supply and demand, labor costs, competition, market speculation, government regulations, tariffs and trade restrictions, and periodic delays in delivery. Rapid and significant changes in commodity prices may affect the demand for our products, our sales and our profit margins.

We may incur property, casualty or other losses not covered by our insurance.

We are predominantly self-insured for a number of different risk categories, such as general liability (including product liability), workers' compensation, employee group medical, automobile claims, and network security and privacy liability, with insurance coverage for certain catastrophic risks. The types and amounts of insurance may vary from time to time based on our decisions with respect to risk retention and regulatory requirements. The occurrence of significant claims, a substantial rise in costs to maintain our insurance, or the failure to maintain adequate insurance coverage could have an adverse impact on our financial condition and results of operations.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results or financial condition.

GAAP and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, such as revenue recognition, asset impairment, impairment of goodwill and other intangible assets, inventories, lease obligations, self-insurance, vendor allowances, tax matters and litigation, are complex and involve many subjective assumptions, estimates and judgments. Changes in accounting standards or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported or expected financial performance or financial condition. The implementation of new accounting standards could also require certain systems, internal process and other changes that could increase our operating costs.

We are involved in a number of legal, regulatory and governmental enforcement proceedings, and while we cannot predict the outcomes of those proceedings and other contingencies with certainty, some of these outcomes may adversely affect our operations or increase our costs.

We are involved in a number of legal proceedings and regulatory matters, including government inquiries and investigations, and consumer, employment, tort and other litigation that arise from time to time in the ordinary course of business. Litigation is inherently unpredictable, and the outcome of some of these proceedings and other contingencies could require us to take or refrain from taking actions which could adversely affect our operations or could result in excessive adverse verdicts or results. Additionally, involvement in these lawsuits, investigations and inquiries, and other proceedings may involve significant expense, divert management's attention and resources from other matters, and impact the reputation of the Company.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The percentage of our owned versus leased facilities that were operating at the end of fiscal 2018, along with the total square footage, follows.

square footage in millions	**Owned**	**Leased**	**Total Square Footage**
Stores [(1)]	90 %	10 %	237.7
Warehouses and distribution centers [(2)]	4 %	96 %	56.1
Offices and other	22 %	78 %	4.3
Total			298.1

(1) Our owned stores include those subject to ground leases.

(2) Located in 49 states, territories, and provinces.

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Our U.S. store locations at the end of fiscal 2018 follow.

U.S.	Stores	U.S.	Stores
Alabama	28	Montana	6
Alaska	7	Nebraska	8
Arizona	56	Nevada	21
Arkansas	14	New Hampshire	20
California	232	New Jersey	67
Colorado	46	New Mexico	13
Connecticut	30	New York	100
Delaware	9	North Carolina	40
District of Columbia	1	North Dakota	2
Florida	153	Ohio	70
Georgia	90	Oklahoma	16
Guam	1	Oregon	27
Hawaii	7	Pennsylvania	70
Idaho	11	Puerto Rico	9
Illinois	76	Rhode Island	8
Indiana	24	South Carolina	25
Iowa	10	South Dakota	1
Kansas	16	Tennessee	39
Kentucky	14	Texas	179
Louisiana	28	Utah	22
Maine	11	Vermont	3
Maryland	41	Virgin Islands	2
Massachusetts	45	Virginia	49
Michigan	70	Washington	45
Minnesota	33	West Virginia	6
Mississippi	14	Wisconsin	27
Missouri	34	Wyoming	5
		Total U.S.	1,981

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Our store locations outside of the U.S. at the end of fiscal 2018 follow.

Canada	Stores	Mexico	Stores
Alberta	27	Aguascalientes	2
British Columbia	26	Baja California	6
Manitoba	6	Baja California Sur	2
New Brunswick	3	Campeche	2
Newfoundland	1	Chiapas	2
Nova Scotia	4	Chihuahua	6
Ontario	88	Coahuila	5
Prince Edward Island	1	Colima	2
Quebec	22	Distrito Federal	10
Saskatchewan	4	Durango	1
Total Canada	182	Guanajuato	5
		Guerrero	2
		Hidalgo	1
		Jalisco	7
		Michoacán	4
		Morelos	3
		Nayarit	1
		Nuevo León	10
		Oaxaca	1
		Puebla	5
		Queretaro	4
		Quintana Roo	3
		San Luis Potosi	2
		Sinaloa	5
		Sonora	4
		State of Mexico	14
		Tabasco	1
		Tamaulipas	5
		Tlaxcala	1
		Veracruz	5
		Yucatan	2
		Zacatecas	1
		Total Mexico	124

Item 3. Legal Proceedings.

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

As previously reported, in January 2017, we became aware of an investigation by the EPA's criminal investigation division into our compliance with lead-safe work practices for certain jobs performed through our installation services business. We have also previously responded to civil document requests from several EPA regions. In the second quarter of fiscal 2018, we received a subpoena for documents from the EPA civil enforcement division. We are continuing to cooperate with the EPA.

In January 2019, we received a letter from the California South Coast Air Quality Management District ("SCAQMD") regarding allegations that we have sold denatured alcohol since 2015 in a manner that is not compliant with

applicable rules. We are currently in discussions with SCAQMD. Although we cannot predict the outcome of this matter, we do not expect the outcome to have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Since April 19, 1984, our common stock has been listed on the NYSE, trading under the symbol "HD". We paid our first cash dividend on June 22, 1987 and have paid a cash dividend during each subsequent quarter. While we currently expect a cash dividend to be paid in the future, future dividend payments will depend on our earnings, capital requirements, financial condition, and other factors considered relevant by our Board of Directors.

At March 8, 2019, there were approximately 110,000 holders of record of our common stock and approximately 2,561,000 additional "street name" holders whose shares are held of record by banks, brokers, and other financial institutions.

Stock Performance Graph

The graph and table below present our cumulative total shareholder returns relative to the performance of the S&P Retail Composite Index and the S&P 500 Index for the five most recent fiscal years. The graph assumes $100 was invested at the closing price of our common stock on the NYSE and in each index on the last trading day of fiscal 2013 and assumes that all dividends were reinvested on the date paid. The points on the graph represent fiscal year-end amounts based on the last trading day in each fiscal year.

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The Home Depot   S&P Retail Composite Index   S&P 500 Index

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	Fiscal Year Ended					
	February 2, 2014	February 1, 2015	January 31, 2016	January 29, 2017	January 28, 2018	February 3, 2019
The Home Depot	$ 100.00	$ 138.83	$ 170.59	$ 191.64	$ 293.71	$ 267.16
S&P Retail Composite Index	100.00	120.09	140.26	166.28	241.50	254.29
S&P 500 Index	100.00	114.22	113.45	137.11	175.09	168.30

Issuer Purchases of Equity Securities

The number and average price of shares purchased in each fiscal month of the fourth quarter of fiscal 2018 follow.

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Program(2)	Dollar Value of Shares that May Yet Be Purchased Under the Program(2)
October 29, 2018 - November 25, 2018:	5,379,057	$ 176.92	5,375,064	$ 6,494,055,865
November 26, 2018 - December 23, 2018:	8,460,498	172.63	8,454,414	5,034,627,517
December 24, 2018 - February 3, 2019:	11,974,922	175.35	11,917,918	2,945,026,439
Total	25,814,477	174.78	25,747,396	

(1) *These amounts include repurchases pursuant to our Amended and Restated 2005 Omnibus Stock Incentive Plan and our 1997 Omnibus Stock Incentive Plan (collectively, 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 December 2017, our Board of Directors authorized a $15.0 billion share repurchase program, of which approximately $2.9 billion remained at the end of fiscal 2018. In February 2019, our Board of Directors authorized a new $15.0 billion share repurchase program that replaced the previous authorization. This new program does not have a prescribed expiration date.*

Sales of Unregistered Securities

During the fourth quarter of fiscal 2018, we issued 530 deferred stock units under the Home Depot, Inc. Nonemployee Directors' Deferred Stock Compensation Plan pursuant to the exemption from registration provided by Section 4(a)(2) of 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 fourth quarter of fiscal 2018. 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.

During the fourth quarter of fiscal 2018, we credited 11,989 deferred stock units to participant accounts under the 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 a termination of service as described in this plan.

Item 6. Selected Financial Data.

The information required by this item is incorporated by reference to page F-1 of this report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our MD&A includes the following sections:

- Executive Summary
- Results of Operations and Non-GAAP Measures
- Liquidity and Capital Resources
- Critical Accounting Policies

Executive Summary

Highlights of our annual financial performance follow.

dollars in millions, except per share data	Fiscal 2018	Fiscal 2017	Fiscal 2016
Net sales	$ 108,203	$ 100,904	$ 94,595
Net earnings	11,121	8,630	7,957
Effective tax rate	23.6 %	37.0 %	36.3 %
Diluted earnings per share	$ 9.73	$ 7.29	$ 6.45
Net cash provided by operating activities	$ 13,038	$ 12,031	$ 9,783
Proceeds from long-term debt, net of discounts	3,466	2,991	4,959
Repayments of long-term debt	1,209	543	3,045
Repurchases of common stock	9,963	8,000	6,880

Note: Fiscal 2018 includes 53 weeks. Fiscal 2017 and fiscal 2016 include 52 weeks.

We reported net sales of $108.2 billion in fiscal 2018. Net earnings were $11.1 billion, or $9.73 per diluted share. The 53rd week in fiscal 2018 added $1.7 billion of net sales and $241 million of net earnings and increased diluted earnings per share by $0.21. Our effective tax rate was 23.6% for fiscal 2018 and lower than fiscal 2017 and fiscal 2016 primarily due to enactment of the Tax Act.

We opened two new stores in Mexico and one new store in the U.S. during fiscal 2018, for a total store count of 2,287 at February 3, 2019. At the end of fiscal 2018, a total of 306 of our stores, or 13.4%, were located in Canada and Mexico. Total sales per square foot were $446.86 in fiscal 2018, and our inventory turnover ratio was 5.1 times at the end of fiscal 2018.

We generated $13.0 billion of cash flow from operations during fiscal 2018 and issued $3.5 billion of long-term debt in fiscal 2018. This cash flow, along with cash on hand, was used to fund cash payments of $10.0 billion for share repurchases, pay $4.7 billion of dividends, fund $2.4 billion in capital expenditures, repay $1.2 billion of senior notes that matured in September 2018, and repay $220 million of net short-term borrowings.

During fiscal 2018, we repurchased $10.0 billion of our common stock through ASR agreements and open market transactions. In February 2019, our Board of Directors authorized a $15.0 billion share repurchase program that replaced the December 2017 authorization, and we announced a 32% increase in our quarterly cash dividend to $1.36 per share.

Our ROIC was 44.8% for fiscal 2018. See the "Non-GAAP Financial Measures" section below for our definition and calculation of ROIC, as well as a reconciliation of NOPAT, a non-GAAP financial measure, to net earnings (the most comparable GAAP financial measure).

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Results of Operations and Non-GAAP Measures

The tables and discussion below should be read in conjunction with our consolidated financial statements and related notes included in this report. We believe the percentage relationship between net sales and major categories in our consolidated statements of earnings, as well as the percentage change in the associated dollar amounts, are relevant to an evaluation of our business.

	Fiscal 2018		Fiscal 2017		Fiscal 2016	
dollars in millions	$	% of Net Sales	$	% of Net Sales	$	% of Net Sales
Net sales	$ 108,203		$ 100,904		$ 94,595	
Gross profit	37,160	34.3 %	34,356	34.0 %	32,313	34.2 %
Operating expenses:						
Selling, general and administrative	19,513	18.0	17,864	17.7	17,132	18.1
Depreciation and amortization	1,870	1.7	1,811	1.8	1,754	1.9
Impairment loss	247	0.2	—	—	—	—
Total operating expenses	21,630	20.0	19,675	19.5	18,886	20.0
Operating income	15,530	14.4	14,681	14.5	13,427	14.2
Interest and other (income) expense:						
Interest and investment income	(93)	(0.1)	(74)	(0.1)	(36)	—
Interest expense	1,051	1.0	1,057	1.0	972	1.0
Other	16	—	—	—	—	—
Interest and other, net	974	0.9	983	1.0	936	1.0
Earnings before provision for income taxes	14,556	13.5	13,698	13.6	12,491	13.2
Provision for income taxes	3,435	3.2	5,068	5.0	4,534	4.8
Net earnings	$ 11,121	10.3 %	$ 8,630	8.6 %	$ 7,957	8.4 %

Note: Fiscal 2018 includes 53 weeks. Fiscal 2017 and fiscal 2016 include 52 weeks. Certain percentages may not sum to totals due to rounding.

				% Change	
Selected financial and sales data:	Fiscal 2018	Fiscal 2017	Fiscal 2016	Fiscal 2018 vs. 2017	Fiscal 2017 vs. 2016
Comparable sales increase (1) (2)	5.2 %	6.8 %	5.6 %	N/A	N/A
Comparable customer transactions increase (2) (3)	1.0 %	2.2 %	2.8 %	N/A	N/A
Comparable average ticket increase (2) (3)	4.2 %	4.5 %	2.7 %	N/A	N/A
Customer transactions (in millions) (3) (4)	1,620.8	1,578.6	1,544.0	2.7 %	2.2 %
Average ticket (3) (4)	$ 65.74	$ 63.06	$ 60.35	4.2 %	4.5 %
Sales per square foot (3) (4)	$ 446.86	$ 417.02	$ 390.78	7.2 %	6.7 %
Diluted earnings per share	$ 9.73	$ 7.29	$ 6.45	33.5 %	13.0 %

(1) The calculations for fiscal 2017 and fiscal 2016 do not include results for Interline, which was acquired in fiscal 2015.

(2) *The calculations do not include results from the 53rd week of fiscal 2018.*

(3) *The calculations do not include results for Interline.*

(4) *The 53rd week of fiscal 2018 increased customer transactions by 24.5 million, added $0.01 to average ticket, and increased sales per square foot by $6.87.*

Fiscal 2018 Compared to Fiscal 2017

Sales. We assess our sales performance by evaluating both net sales and comparable sales.

Net Sales. Fiscal 2018 consisted of 53 weeks compared to 52 weeks in fiscal 2017. Net sales for fiscal 2018 increased $7.3 billion, or 7.2%, to $108.2 billion. The increase in net sales in fiscal 2018 primarily reflected the impact of positive comparable sales driven by average ticket growth and increased customer transactions as well as $1.7 billion of net sales attributable to the additional week in fiscal 2018. Online sales, which consist of sales generated online through our websites for products picked up in our stores or delivered to customer locations, represented 7.9% of net sales and grew 26.2% during fiscal 2018. The adoption of ASU No. 2014-09 benefited net sales by $216 million in fiscal 2018, while the effect of foreign currency had a negligible impact on net sales. See Note 1 to our consolidated financial statements for more information on ASU No. 2014-09 and the implementation of this new standard for revenue recognition.

Comparable Sales. Comparable sales is a measure that highlights the performance of our existing locations and websites by measuring the change in net sales for a period over the comparable prior-period of equivalent length. Comparable sales includes sales at all locations, physical and online, open greater than 52 weeks (including remodels and relocations) and excluding closed stores. Retail stores become comparable on the Monday following their 365th day of operation. Acquisitions, digital or otherwise, are included in comparable sales after we own them for more than 52 weeks (with the exception of Interline which is excluded from comparable sales for periods prior to fiscal 2018). Net sales for the 53rd week in a fiscal year are not included in the comparable sales calculation for that fiscal year. For example, our comparable sales results for fiscal 2018 compare weeks 1 through 52 in fiscal 2018 to the 52-week period reported for fiscal 2017. Comparable sales is intended only as supplemental information and is not a substitute for net sales presented in accordance with GAAP.

Total comparable sales increased 5.2% in fiscal 2018. The increase in comparable sales reflected a number of factors, including the execution of our strategic efforts to drive an enhanced interconnected experience in both the physical and digital worlds. All of our merchandising departments posted positive comparable sales in fiscal 2018 except for Lighting, which was negative primarily due to LED price deflation. For fiscal 2018, comparable sales for our Appliances, Tools, Electrical, Décor, Plumbing, Lumber, and Indoor Garden merchandising departments were above the Company average. Our comparable average ticket increased 4.2% in fiscal 2018 while comparable customer transactions increased 1.0% during fiscal 2018. The increase in comparable average ticket was due in large part to strong sales in big ticket purchases in certain categories, such as appliances and vinyl plank flooring.

Gross Profit. Gross profit increased $2.8 billion, or 8.2%, to $37.2 billion in fiscal 2018. Gross profit as a percent of net sales, or gross profit margin, was 34.3% in fiscal 2018 compared to 34.0% in fiscal 2017. The increase in gross profit margin for fiscal 2018 was primarily driven by a $598 million benefit from the adoption of ASU No. 2014-09 and a benefit from mix of products sold, partially offset by higher transportation and fuel costs in our supply chain and shrink. The additional week in fiscal 2018 contributed $615 million to gross profit.

Operating Expenses. Our operating expenses are composed of SG&A, depreciation and amortization, and impairment loss.

Selling, General & Administrative. SG&A increased $1.6 billion, or 9.2%, to $19.5 billion in fiscal 2018. As a percent of net sales, SG&A was 18.0% for fiscal 2018 compared to 17.7% for fiscal 2017. The increase in SG&A as a percent of net sales for fiscal 2018 reflected an increase of $598 million from the adoption of ASU No. 2014-09 and $544 million of incremental investments made in the business, partially offset by expense leverage resulting from the positive sales environment and continued expense control. The additional week in fiscal 2018 contributed $301 million to SG&A.

Depreciation and Amortization. Depreciation and amortization increased $59 million, or 3.3%, in fiscal 2018. As a percent of net sales, depreciation and amortization was 1.7% for fiscal 2018 compared to 1.8% in fiscal 2017. The decrease in depreciation and amortization as a percent of net sales reflected expense leverage resulting from the positive sales environment and the timing of asset additions, partially offset by $136 million of incremental depreciation stemming from investments in the business. The additional week in fiscal 2018 did not result in incremental expense because we recognize depreciation and amortization expense on a monthly basis.

Impairment Loss. We recognized a $247 million impairment loss in fiscal 2018 related to certain trade names associated with Interline. See Note 1 to our consolidated financial statements for more information.

Interest and Other, net. Interest and other, net, was $974 million for fiscal 2018 compared to $983 million for fiscal 2017. Interest and other, net, as a percent of net sales decreased to 0.9% in fiscal 2018 from 1.0% in fiscal 2017, primarily reflecting sales leverage resulting from the positive sales environment, decreased tax reserves due to certain positive audit settlements, and higher interest income, partially offset by higher interest expense on long-term debt balances in fiscal 2018 and a loss on the sale of a non-strategic asset.

Provision for Income Taxes. Our combined effective income tax rate was 23.6% for fiscal 2018 compared to 37.0% for fiscal 2017. The decrease in the provision for income taxes in fiscal 2018 primarily reflected the enactment of the Tax Act and adjustments to the provisional tax charge recorded in the fourth quarter of fiscal 2017 as well as certain positive audit settlements. See Note 5 to our consolidated financial statements for further discussion.

Diluted Earnings per Share. Diluted earnings per share were $9.73 for fiscal 2018 compared to $7.29 for fiscal 2017. Diluted earnings per share for fiscal 2018 reflected a benefit of $1.48 per share resulting from the enactment of the Tax Act, a benefit of $0.21 per share for the 53rd week, and a decrease of $0.16 per share due to the impairment loss.

Diluted earnings per share for fiscal 2017 included a benefit of $0.09 per share as a result of the adoption of ASU No. 2016-09, which requires that we recognize tax benefits or deficiencies related to share-based payment awards in the provision for income taxes. Diluted earnings per share for fiscal 2017 also reflected decreases of $0.11 per share due to the net tax charge recorded in connection with the enactment of the Tax Act and $0.06 per share due to the one-time bonus payment to hourly associates made as a result of the Tax Act.

Fiscal 2017 Compared to Fiscal 2016

Sales.

Net Sales. Net sales for fiscal 2017 increased $6.3 billion, or 6.7%, to $100.9 billion. The increase in net sales in fiscal 2017 primarily reflected the impact of positive comparable sales driven by increased customer transactions and average ticket growth. Hurricane-related sales contributed approximately $662 million to net sales in the second half of fiscal 2017.

Comparable Sales. Total comparable sales increased 6.8% in fiscal 2017. The increase in comparable sales reflected a number of factors, including the execution of our strategy and broad-based growth across our stores and online. Online sales, which consist of sales generated online through our websites for products picked up in our stores or delivered to customer locations, represented 6.7% of net sales and grew 21.5% during fiscal 2017. All of our merchandising departments posted positive comparable sales except for one, which was flat in fiscal 2017. Comparable sales for our Lumber, Electrical, Tools, Appliances, Flooring, Building Materials, and Indoor Garden merchandising departments were above the Company average during fiscal 2017. Our comparable customer transactions increased 2.2% during fiscal 2017. Further, our comparable average ticket increased 4.5% in fiscal 2017, due in part to strong sales in big ticket purchases in certain merchandising departments, such as Appliances and Flooring.

Gross Profit. Gross profit increased $2.0 billion, or 6.3%, to $34.4 billion in fiscal 2017. Gross profit as a percent of net sales, or gross profit margin, was 34.0% in fiscal 2017 compared to 34.2% in fiscal 2016. The modest decline in gross profit margin for fiscal 2017 reflected the impact of lower margin hurricane-related sales and higher shrink, partially offset by benefits from our supply chain.

Operating Expenses.

Selling, General & Administrative. SG&A increased $732 million, or 4.3%, to $17.9 billion in fiscal 2017 and included approximately $170 million of hurricane-related expenses. As a percent of net sales, SG&A was 17.7% for fiscal 2017 compared to 18.1% for fiscal 2016. The decrease in SG&A as a percent of net sales for fiscal 2017 reflected expense leverage resulting from the positive sales environment and continued expense control.

Depreciation and Amortization. Depreciation and amortization increased $57 million, or 3.2%, in fiscal 2017. The decrease in depreciation and amortization as a percent of net sales to 1.8% in fiscal 2017 from 1.9% in fiscal 2016 reflected expense leverage resulting from the positive sales environment.

Interest and Other, net. Interest and other, net, was $983 million for fiscal 2017 compared to $936 million for fiscal 2016. Interest and other, net, as a percent of net sales was 1.0% for both fiscal 2017 and fiscal 2016 and reflected additional interest expense in fiscal 2017 resulting from higher long-term debt balances in fiscal 2017, offset by higher interest income in fiscal 2017 compared to fiscal 2016.

Provision for Income Taxes. Our combined effective income tax rate was 37.0% for fiscal 2017 compared to 36.3% for fiscal 2016. The effective income tax rate for fiscal 2017 reflected a net $127 million charge resulting from the enactment of the Tax Act. The effective income tax rate for fiscal 2017 also reflected a $106 million benefit to our provision for income taxes for share-based payment awards as a result of our adoption of ASU No. 2016-09.

Diluted Earnings per Share. Diluted earnings per share were $7.29 for fiscal 2017 compared to $6.45 for fiscal 2016. Diluted earnings per share for fiscal 2017 included a benefit of $0.09 per share as a result of the adoption of ASU No. 2016-09, as well as decreases of $0.11 per share due to the net tax charge recorded in connection with the enactment of the Tax Act and $0.06 per share due to the one-time bonus payment to hourly associates made as a result of the Tax Act.

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

The calculation of ROIC, together with a reconciliation of NOPAT to net earnings (the most comparable GAAP measure), follows.

dollars in millions	**Fiscal 2018**	**Fiscal 2017**	**Fiscal 2016**
Net earnings	$ 11,121	$ 8,630	$ 7,957
Interest and other, net	974	983	936
Provision for income taxes	3,435	5,068	4,534
Operating income	15,530	14,681	13,427
Income tax adjustment (1)	(3,665)	(5,432)	(4,874)
NOPAT	$ 11,865	$ 9,249	$ 8,553
Average debt and equity (2)	$ 26,492	$ 27,074	$ 27,203
ROIC	44.8 %	34.2 %	31.4 %

Note: Fiscal 2018 includes 53 weeks. Fiscal 2017 and fiscal 2016 include 52 weeks.

(1) *Income tax adjustment is defined as operating income multiplied by our effective tax rate for the trailing twelve months.*

(2) *The beginning balance of equity for fiscal 2018 has been adjusted to reflect an opening balance sheet adjustment of $75 million due to the adoption of ASU No. 2014-09, Revenue from Contracts with Customers, in fiscal 2018.*

Liquidity and Capital Resources

Cash and Cash Equivalents at End of Year

At February 3, 2019, we had $1.8 billion in cash and cash equivalents, of which $1.4 billion was held by our foreign subsidiaries. We believe that our current cash position, access to the long-term debt capital markets, funds available from our commercial paper programs, 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 the ability to obtain alternative sources of financing.

As we accelerate our investments in the business, we expect capital expenditures of approximately $2.7 billion in fiscal 2019.

Debt and Derivatives

We have commercial paper programs with an aggregate borrowing capacity of $3.0 billion. All of our short-term borrowings in fiscal 2018 and fiscal 2017 were under these commercial paper programs. In connection with these programs, we have back-up credit facilities with a consortium of banks for borrowings up to $3.0 billion, which consist of a five-year $2.0 billion credit facility and a 364-day $1.0 billion credit facility. In December 2018, we completed the renewal of our 364-day $1.0 billion credit facility, extending the maturity from December 2018 to December 2019. In December 2017, we replaced our five-year $2.0 billion credit facility that was scheduled to expire in December 2019, with a new, substantially identical five-year $2.0 billion credit facility that expires in December 2022. At February 3, 2019, we were in compliance with all of the covenants contained in the credit facilities, none of which are expected to impact our liquidity or capital resources. At February 3, 2019, there were $1.3 billion of borrowings outstanding under these commercial paper programs compared to $1.6 billion at January 28, 2018.

We also issue senior notes from time to time and use derivative financial instruments in the management of our exposure to fluctuations in foreign currencies and interest rates on certain long-term debt. See Note 4 and Note 7 to our consolidated financial statements for further discussion of our debt and derivative agreements.

Leases

We use capital and operating leases to finance a portion of our real estate, including our stores, distribution centers, and store support centers. See Note 3 and Note 4 to our consolidated financial statements for further discussion of our capital and operating leases.

Share Repurchases

In fiscal 2018, we repurchased $10.0 billion of our common stock through open market transactions and ASR agreements. In December 2017, our Board of Directors authorized a $15.0 billion share repurchase program, of which approximately $2.9 billion remained at the end of fiscal 2018. In February 2019, our Board of Directors authorized a new $15.0 billion share repurchase program that replaced the previous authorization. See Note 6 to our consolidated financial statements for further discussion of our share repurchases.

Cash Flows Summary

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Operating Activities. Cash flow generated from operations provides us with a significant source of liquidity. Our operating cash flows result primarily from cash received from our customers, offset by cash payments we make for products and services, employee compensation, operations and occupancy costs. Cash provided by or used in operating activities is also subject to changes in working capital. Working capital at any specific point in time is subject to many variables, including seasonality, inventory management and category expansion, the timing of cash receipts and payments, vendor payment terms, and fluctuations in foreign exchange rates.

Net cash provided by operating activities increased $1.0 billion in fiscal 2018 and increased $2.2 billion in fiscal 2017. The increase in fiscal 2018 primarily reflected an increase in net earnings, partially offset by net cash outflows associated with changes in working capital. The increase in net earnings during fiscal 2018 was primarily due to a lower effective income tax rate in fiscal 2018 resulting from the enactment of the Tax Act and higher comparable sales. The increase in fiscal 2017 primarily reflected an increase in net earnings and net cash inflows associated with changes in working capital. The increase in earnings in fiscal 2017 resulted from higher comparable sales and expense leverage.

Investing Activities. Cash used in investing activities primarily reflected:

- $2.4 billion of capital expenditures for investments in our business in fiscal 2018;
- $1.9 billion of capital expenditures for investments in our business and $374 million cash paid in connection with the acquisitions of Compact Power Equipment, Inc. and The Company Store in fiscal 2017; and
- $1.6 billion of capital expenditures for investments in our business in fiscal 2016.

Financing Activities. Cash used in financing activities primarily reflected:

- $10.0 billion of share repurchases and $4.7 billion of cash dividends paid, partially offset by $2.0 billion of net proceeds from short- and long-term debt in fiscal 2018;
- $8.0 billion of share repurchases and $4.2 billion of cash dividends paid, partially offset by $3.3 billion of net proceeds from short- and long-term debt in fiscal 2017; and
- $6.9 billion of share repurchases and $3.4 billion of cash dividends paid, partially offset by $2.3 billion of net proceeds from short- and long-term debt in fiscal 2016.

Contractual Obligations

Our significant contractual obligations at February 3, 2019 were as follows:

	Payments Due by Period				
in millions	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Short-term debt	$ 1,339	$ 1,339	$ —	$ —	$ —
Long-term debt – principal payments (1)	27,100	1,000	4,100	3,250	18,750
Long-term debt – interest payments (2)	16,768	1,022	1,913	1,664	12,169
Capital lease obligations (3)	1,709	150	310	279	970
Operating lease obligations	7,036	976	1,704	1,266	3,090
Purchase obligations (4)	1,601	1,080	302	182	37
Unrecognized tax benefits (5)	65	65	—	—	—
Total	$ 55,618	$ 5,632	$ 8,329	$ 6,641	$ 35,016

———

(1) Excludes capital lease obligations.

(2) Interest payments are calculated at current interest rates, including the impact of active interest rate swaps.

(3) Includes $660 million of imputed interest.

(4) Purchase obligations include all legally binding contracts such as firm commitments for inventory purchases, utility purchases, capital expenditures, software acquisitions and license commitments, and legally binding service contracts. Purchase orders that are not binding agreements are excluded from the table above.

(5) Excludes $429 million of noncurrent unrecognized tax benefits due to uncertainty regarding the timing of future cash tax payments.

Off-Balance Sheet Arrangements

Other than operating leases for a portion of our real estate and other assets, we have no off-balance sheet arrangements.

Critical Accounting Policies

Our significant accounting policies are disclosed in Note 1 to our consolidated financial statements. The following discussion addresses our most critical accounting policies, which are those that are both important to the portrayal of our financial condition and results of operations, and that require significant judgment or use of significant assumptions or complex estimates.

Merchandise Inventories

We value the substantial majority of our inventory under the retail inventory method, using the first-in, first-out method, with the remainder of our inventories valued under a cost method. Under the retail inventory method, inventories are stated at cost, which is determined by applying a cost-to-retail ratio to the retail value of inventories. The retail value of our inventory is adjusted as needed to reflect current market conditions. Because these adjustments are based on current prevailing market conditions, the value of our inventory approximates the lower of cost or market.

As the valuation under the retail inventory method is based on estimates such as markups, markdowns, and inventory losses (or shrink), there exists an inherent uncertainty in the final determination of inventory cost and gross profit. We do not believe there is a reasonable likelihood for a material change in the estimates or assumptions we use to value our inventory under the retail inventory method. We believe that the retail inventory method provides an inventory valuation which approximates cost and results in valuing our inventory at the lower of cost or market.

Impairment of Long-Lived Assets

We evaluate our long-lived assets each quarter for indicators of potential impairment. Indicators of impairment include current period losses combined with a history of losses, our decision to relocate or close a store or other location before the end of its previously estimated useful life, or when changes in other circumstances indicate the carrying amount of an asset may not be recoverable. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The assets of a store with indicators of impairment are evaluated for recoverability by comparing its undiscounted future cash flows with its carrying value. Our cash flow projections look several years into the future and include assumptions on variables such as future sales and operating margin growth rates, economic conditions, market competition, and inflation.

If the carrying value is greater than the undiscounted future cash flows, we then measure the asset’s fair value to determine whether an impairment loss should be recognized. If the resulting fair value is less than the carrying value, an impairment loss is recognized. We generally base our estimates of fair market value on market appraisals of owned locations and estimates of the amount of potential sublease income and the time required to sublease for leased locations. Impairments and lease obligation costs on closings and relocations were not material to our consolidated financial statements in fiscal 2018.

Self-Insurance

We have established liabilities for certain losses related to general liability (including product liability), workers’ compensation, employee group medical, and automobile claims for which we are self-insured. Our self-insured retention or deductible, as applicable, for each claim involving general liability, workers’ compensation, and automobile liability is limited to $25 million, $1 million, and $1 million, respectively. We have no stop loss limits for self-insured employee group medical claims. Our liabilities represent estimates of the ultimate cost for claims incurred at the balance sheet date. The estimated liabilities are not discounted and are established based upon analysis of historical data and actuarial estimates. The liabilities are reviewed by management and third-party actuaries on a regular basis to ensure that they are appropriate. While we believe these estimates are reasonable based on the information currently available, if actual trends, including the severity or frequency of claims, medical cost inflation or fluctuations in premiums, differ from our estimates, our results of operations could be impacted. Actual results related to these types of claims did not vary materially from estimated amounts for fiscal 2018, fiscal 2017 or fiscal 2016.

Revenues

We recognize revenue, net of estimated returns and sales tax, at the time the customer takes possession of merchandise or when a service is performed. We estimate the liability for sales returns, including the estimated gross profit impact, based on our historical return levels and believe that our estimate for sales returns is a reasonable reflection of future returns. In connection with the adoption of ASU No. 2014-09, we also recognize a return asset, and corresponding adjustment to cost of sales, for our right to recover the goods returned by the customer, measured at the former carrying amount of the goods, less any expected recovery cost. At each financial reporting date, we assess our estimates of expected returns, refund liabilities, and return assets.

We defer revenue and the related gross profit for payments received from customers for which the customer has not yet taken possession of merchandise or we have not yet performed the service for the customer. This amount is recorded as deferred revenue. We estimate the gross profit related to deferred revenue using historical rates, which we believe to be a reasonable reflection of future rates. If these estimates significantly differ from actual amounts, our net sales and gross profit could be impacted.

Vendor Allowances

Vendor allowances primarily consist of volume rebates that are earned as a result of attaining certain purchase levels and co-op advertising allowances for the promotion of vendors' products that are typically based on guaranteed minimum amounts with additional amounts being earned for attaining certain purchase levels. These vendor allowances are accrued as earned, with those allowances received as a result of attaining certain purchase levels accrued over the incentive period based on estimates of purchases. We believe that our estimate of vendor allowances earned based on expected volume of purchases over the incentive period is an accurate reflection of the ultimate allowance to be received from our vendors.

Volume rebates and certain co-op advertising allowances earned are initially recorded as a reduction in merchandise inventories and a subsequent reduction in cost of sales when the related product is sold. Certain co-op advertising allowances that are reimbursements of specific, incremental and identifiable costs incurred to promote vendors' products are recorded as an offset against advertising expense in SG&A.

Additional Information

For information on accounting pronouncements that have impacted or are expected to materially impact our financial condition, results of operations, or cash flows, see Note 1 to our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk. We have exposure to interest rate risk in connection with our long-term debt portfolio. We use interest rate swap agreements to manage our fixed/floating rate debt portfolio. At February 3, 2019, after giving consideration to our interest rate swap agreements, floating rate debt principal was $2.1 billion, or approximately 8% of our long-term debt portfolio. A 1.0 percentage point change in the interest costs of floating-rate debt would not have a material impact on our financial condition or results of operations.

The United Kingdom's Financial Conduct Authority has announced the intent to phase out the use of LIBOR by the end of 2021. If LIBOR is discontinued, we may need to renegotiate the terms of certain of our floating rate notes, interest rate swap agreements, and credit instruments, which utilize LIBOR as a benchmark in determining the interest rate, to replace LIBOR with the new standard that is established. As a result, we may incur incremental costs in transitioning to a new standard, and interest rates on our current or future indebtedness may be adversely affected by the new standard. There is currently no definitive information regarding the future utilization of LIBOR or of any particular replacement rate. As such, the potential effect of any such event on our cost of capital cannot yet be determined, but we do not expect it to have a material impact on our consolidated financial condition, results of operations, or cash flows.

Foreign Currency Exchange Rate Risk. We are 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. Revenues from these foreign operations accounted for approximately $8.8 billion of our revenue for fiscal 2018. Our exposure to foreign currency rate fluctuations is not material to our financial condition or results of operations.

Commodity Price Risk. We have experienced inflation and deflation related to our purchase of certain commodity products. We do not believe that changing prices for commodities have had a material effect on our net sales or results of operations. Although we cannot precisely determine the overall effect of inflation and deflation on operations, we do not believe inflation and deflation have had a material effect on our financial condition or results of operations.

Item 8. Financial Statements and Supplementary Data.

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Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors
The Home Depot, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying Consolidated Balance Sheets of The Home Depot, Inc. and Subsidiaries as of February 3, 2019 and January 28, 2018, and the related Consolidated Statements of Earnings, Comprehensive Income, Stockholders' Equity, and Cash Flows for each of the fiscal years in the three-year period ended February 3, 2019, and the related notes (collectively, the "Consolidated Financial Statements"). In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the financial position of The Home Depot, Inc. and Subsidiaries as of February 3, 2019 and January 28, 2018, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended February 3, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), The Home Depot, Inc.'s internal control over financial reporting as of February 3, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 28, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the Consolidated Financial Statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the Consolidated Financial Statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1979.

Atlanta, Georgia
March 28, 2019

THE HOME DEPOT, INC.
CONSOLIDATED BALANCE SHEETS

in millions, except per share data	February 3, 2019	January 28, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 1,778	$ 3,595
Receivables, net	1,936	1,952
Merchandise inventories	13,925	12,748
Other current assets	890	638
Total current assets	18,529	18,933
Net property and equipment	22,375	22,075
Goodwill	2,252	2,275
Other assets	847	1,246
Total assets	$ 44,003	$ 44,529
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term debt	$ 1,339	$ 1,559
Accounts payable	7,755	7,244
Accrued salaries and related expenses	1,506	1,640
Sales taxes payable	656	520
Deferred revenue	1,782	1,805
Income taxes payable	11	54
Current installments of long-term debt	1,056	1,202
Other accrued expenses	2,611	2,170
Total current liabilities	16,716	16,194
Long-term debt, excluding current installments	26,807	24,267
Deferred income taxes	491	440
Other long-term liabilities	1,867	2,174
Total liabilities	45,881	43,075
Common stock, par value $0.05; authorized: 10,000 shares; issued: 1,782 at February 3, 2019 and 1,780 shares at January 28, 2018; outstanding: 1,105 shares at February 3, 2019 and 1,158 shares at January 28, 2018	89	89
Paid-in capital	10,578	10,192
Retained earnings	46,423	39,935
Accumulated other comprehensive loss	(772)	(566)
Treasury stock, at cost, 677 shares at February 3, 2019 and 622 shares at January 28, 2018	(58,196)	(48,196)
Total stockholders' (deficit) equity	(1,878)	1,454
Total liabilities and stockholders' equity	$ 44,003	$ 44,529

See accompanying notes to consolidated financial statements.

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THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF EARNINGS

in millions, except per share data	Fiscal 2018	Fiscal 2017	Fiscal 2016
Net sales	$ 108,203	$ 100,904	$ 94,595
Cost of sales	71,043	66,548	62,282
Gross profit	37,160	34,356	32,313
Operating expenses:			
Selling, general and administrative	19,513	17,864	17,132
Depreciation and amortization	1,870	1,811	1,754
Impairment loss	247	—	—
Total operating expenses	21,630	19,675	18,886
Operating income	15,530	14,681	13,427
Interest and other (income) expense:			
Interest and investment income	(93)	(74)	(36)
Interest expense	1,051	1,057	972
Other	16	—	—
Interest and other, net	974	983	936
Earnings before provision for income taxes	14,556	13,698	12,491
Provision for income taxes	3,435	5,068	4,534
Net earnings	$ 11,121	$ 8,630	$ 7,957
Basic weighted average common shares	1,137	1,178	1,229
Basic earnings per share	$ 9.78	$ 7.33	$ 6.47
Diluted weighted average common shares	1,143	1,184	1,234
Diluted earnings per share	$ 9.73	$ 7.29	$ 6.45

Fiscal 2018 includes 53 weeks. Fiscal 2017 and fiscal 2016 include 52 weeks.

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Net earnings	$ 11,121	$ 8,630	$ 7,957
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(267)	311	(3)
Cash flow hedges, net of tax	53	(1)	34
Other	8	(9)	—
Total other comprehensive (loss) income	(206)	301	31
Comprehensive income	$ 10,915	$ 8,931	$ 7,988

Fiscal 2018 includes 53 weeks. Fiscal 2017 and fiscal 2016 include 52 weeks.

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Common Stock:			
Balance at beginning of year	$ 89	$ 88	$ 88
Shares issued under employee stock plans	—	1	—
Balance at end of year	89	89	88
Paid-in Capital:			
Balance at beginning of year	10,192	9,787	9,347
Shares issued under employee stock plans	104	132	76
Tax effect of stock-based compensation	—	—	97
Stock-based compensation expense	282	273	267
Balance at end of year	10,578	10,192	9,787
Retained Earnings:			
Balance at beginning of year	39,935	35,519	30,973
Cumulative effect of accounting change	75	—	—
Net earnings	11,121	8,630	7,957
Cash dividends	(4,704)	(4,212)	(3,404)
Other	(4)	(2)	(7)
Balance at end of year	46,423	39,935	35,519
Accumulated Other Comprehensive Income (Loss):			
Balance at beginning of year	(566)	(867)	(898)
Foreign currency translation adjustments	(267)	311	(3)
Cash flow hedges, net of tax	53	(1)	34
Other	8	(9)	—
Balance at end of year	(772)	(566)	(867)
Treasury Stock:			
Balance at beginning of year	(48,196)	(40,194)	(33,194)
Repurchases of common stock	(10,000)	(8,002)	(7,000)
Balance at end of year	(58,196)	(48,196)	(40,194)
Total stockholders' (deficit) equity	$ (1,878)	$ 1,454	$ 4,333

Fiscal 2018 includes 53 weeks. Fiscal 2017 and fiscal 2016 include 52 weeks.

See accompanying notes to consolidated financial statements.

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THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Cash Flows from Operating Activities:			
Net earnings	$ 11,121	$ 8,630	$ 7,957
Reconciliation of net earnings to net cash provided by operating activities:			
Depreciation and amortization	2,152	2,062	1,973
Stock-based compensation expense	282	273	267
Impairment loss	247	—	—
Changes in receivables, net	33	139	(138)
Changes in merchandise inventories	(1,244)	(84)	(769)
Changes in other current assets	(257)	(10)	(48)
Changes in accounts payable and accrued expenses	743	352	446
Changes in deferred revenue	80	128	99
Changes in income taxes payable	(42)	29	109
Changes in deferred income taxes	26	92	(117)
Other operating activities	(103)	420	4
Net cash provided by operating activities	13,038	12,031	9,783
Cash Flows from Investing Activities:			
Capital expenditures, net of non-cash capital expenditures	(2,442)	(1,897)	(1,621)
Payments for businesses acquired, net	(21)	(374)	—
Proceeds from sales of property and equipment	33	47	38
Other investing activities	14	(4)	—
Net cash used in investing activities	(2,416)	(2,228)	(1,583)
Cash Flows from Financing Activities:			
(Repayments of) proceeds from short-term debt, net	(220)	850	360
Proceeds from long-term debt, net of discounts	3,466	2,991	4,959
Repayments of long-term debt	(1,209)	(543)	(3,045)
Repurchases of common stock	(9,963)	(8,000)	(6,880)
Proceeds from sales of common stock	236	255	218
Cash dividends	(4,704)	(4,212)	(3,404)
Other financing activities	(26)	(211)	(78)
Net cash used in financing activities	(12,420)	(8,870)	(7,870)
Change in cash and cash equivalents	(1,798)	933	330
Effect of exchange rate changes on cash and cash equivalents	(19)	124	(8)
Cash and cash equivalents at beginning of year	3,595	2,538	2,216
Cash and cash equivalents at end of year	$ 1,778	$ 3,595	$ 2,538
Supplemental Disclosures:			
Cash paid for income taxes	$ 3,774	$ 4,732	$ 4,623
Cash paid for interest, net of interest capitalized	1,035	991	924
Non-cash capital expenditures	248	150	179

Fiscal 2018 includes 53 weeks. Fiscal 2017 and fiscal 2016 include 52 weeks.

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

The Home Depot, Inc., together with its subsidiaries (the "Company," "Home Depot," "we," "our" or "us"), is a home improvement retailer that sells a wide assortment of building materials, home improvement products, lawn and garden products, and décor items and provides a number of services, in stores and online. We operate in the U.S. (including the Commonwealth of Puerto Rico and the territories of the U.S. Virgin Islands and Guam), Canada, and Mexico.

Consolidation and Presentation

Our consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Certain amounts in prior fiscal years have been reclassified to conform with the presentation adopted in the current fiscal year. Our fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31. Fiscal 2018 includes 53 weeks compared to fiscal 2017 and fiscal 2016, both of which include 52 weeks.

Use of Estimates

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses in preparing these financial statements in conformity with GAAP. Actual results could differ from these estimates.

Cash Equivalents

We consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Our cash equivalents are carried at fair market value and consist primarily of money market funds.

Receivables

The components of receivables, net, follow.

in millions	February 3, 2019	January 28, 2018
Card receivables	$ 696	$ 734
Rebate receivables	660	609
Customer receivables	284	261
Other receivables	296	348
Receivables, net	$ 1,936	$ 1,952

Card receivables consist of payments due from financial institutions for the settlement of credit card and debit card transactions. Rebate receivables represent amounts due from vendors for volume and co-op advertising rebates. Receivables due from customers relate to credit extended directly to certain customers in the ordinary course of business. The valuation reserve related to accounts receivable was not material to our consolidated financial statements at the end of fiscal 2018 or fiscal 2017.

Merchandise Inventories

The majority of our merchandise inventories are stated at the lower of cost (first-in, first-out) or market, as determined by the retail inventory method. As the inventory retail value is adjusted regularly to reflect market conditions, the inventory valued using the retail method approximates the lower of cost or market. Certain subsidiaries, including retail operations in Canada and Mexico, and distribution centers, record merchandise inventories at the lower of cost or net realizable value, as determined by a cost method. These merchandise inventories represent approximately 29% of the total merchandise inventories balance. We evaluate the inventory valued using a cost method at the end of each quarter to ensure that it is carried at the lower of cost or net realizable value. The valuation allowance for merchandise inventories valued under a cost method was not material to our consolidated financial statements at the end of fiscal 2018 or fiscal 2017.

Independent physical inventory counts or cycle counts are taken on a regular basis in each store and distribution center to ensure that amounts reflected in merchandise inventories are properly stated. Shrink (or in the case of excess inventory, "swell") is the difference between the recorded amount of inventory and the physical inventory. We calculate shrink based on actual inventory losses occurring as a result of physical inventory counts during each fiscal period and estimated inventory losses occurring between physical inventory counts. The estimate for shrink occurring in the interim period between physical inventory counts is calculated on a store-specific basis based on recent shrink results and current trends in the business.

Property and Equipment, including Capitalized Lease Assets

Buildings, furniture, fixtures, and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized using the straight-line method over the original term of the lease or the useful life of the improvement, whichever is shorter. The estimated useful lives of our property and equipment follow.

	Life
Buildings	5 – 45 years
Furniture, fixtures and equipment	2 – 20 years
Leasehold improvements	5 – 45 years

We capitalize certain costs related to the acquisition and development of software and amortize these costs using the straight-line method over the estimated useful life of the software, which is three to six years. Certain development costs not meeting the criteria for capitalization are expensed as incurred.

We evaluate our long-lived assets each quarter for indicators of potential impairment. Indicators of impairment include current period losses combined with a history of losses, our decision to relocate or close a store or other location before the end of its previously estimated useful life, or when changes in other circumstances indicate the carrying amount of an asset may not be recoverable. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The assets of a store with indicators of impairment are evaluated for recoverability by comparing its undiscounted future cash flows with its carrying value. If the carrying value is greater than the undiscounted future cash flows, we then measure the asset's fair value to determine whether an impairment loss should be recognized. If the resulting fair value is less than the carrying value, an impairment loss is recognized for the difference between the carrying value and the estimated fair value. Impairment losses on property and equipment are recorded as a component of SG&A. When a leased location closes, we also recognize, in SG&A, the net present value of future lease obligations less estimated sublease income. Impairments and lease obligation costs on closings and relocations were not material to our consolidated financial statements in fiscal 2018, fiscal 2017, or fiscal 2016.

Leases

We categorize leases at their inception as either operating or capital leases. Lease agreements include certain retail locations, office space, warehouse and distribution space, equipment, and vehicles. Most of these leases are operating leases. However, certain retail locations and equipment are leased under capital leases. Short-term and long-term obligations for capital leases are included in the applicable long-term debt category based on maturity. We expense rent related to operating leases on a straight-line basis over the lease term, which commences on the date we have the right to control the property. The cumulative expense recognized on a straight-line basis in excess of the cumulative payments is included in other accrued expenses and other long-term liabilities. Total rent expense for fiscal 2018, fiscal 2017, and fiscal 2016 is net of an immaterial amount of sublease income.

Goodwill

Goodwill represents the excess of purchase price over the fair value of net assets acquired. We do not amortize goodwill, but assess the recoverability of goodwill in the third quarter of each fiscal year, or more often if indicators warrant, by determining whether the fair value of each reporting unit supports its carrying value. Each fiscal year, we may assess qualitative factors to determine whether it is more likely than not that the fair value of each reporting unit is less than its carrying amount as a basis for determining whether it is necessary to complete quantitative impairment assessments, with a quantitative assessment completed at least once every three years. We completed our last quantitative assessment in fiscal 2016.

In fiscal 2018, we completed our annual assessment of the recoverability of goodwill for the U.S., Canada, and Mexico reporting units. We performed qualitative assessments, concluding that the fair value of the reporting units substantially exceeded the respective reporting unit's carrying value, including goodwill. As a result, there were no impairment charges related to goodwill for fiscal 2018, fiscal 2017, or fiscal 2016.

Changes in the carrying amount of our goodwill follow.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Goodwill, balance at beginning of year	$ 2,275	$ 2,093	$ 2,102
Acquisitions (1)	4	164	—
Disposition	(15)	—	—
Other (2)	(12)	18	(9)
Goodwill, balance at end of year	$ 2,252	$ 2,275	$ 2,093

(1) Includes purchase price allocation adjustments.
(2) Primarily reflects the impact of foreign currency translation.

Other Intangible Assets

We amortize the cost of other finite-lived intangible assets over their estimated useful lives, which range up to 12 years. Intangible assets with indefinite lives are tested in the third quarter of each fiscal year for impairment, or more often if indicators warrant. Intangible assets other than goodwill are included in other assets.

In January 2019, we recognized a pretax impairment loss of $247 million for certain trade names as a result of a shift in strategy for our MRO business. Our remaining finite-lived and indefinite-lived intangibles were not material at February 3, 2019.

Debt

We record any premiums or discounts associated with an issuance of long-term debt as a direct addition or deduction to the carrying value of the related senior notes. We also record debt issuance costs associated with an issuance of long-term debt as a direct deduction to the carrying value of the related senior notes. Premium, discount, and debt issuance costs are amortized over the term of the respective notes using the effective interest rate method.

Derivatives

We use derivative financial instruments in the management of our interest rate exposure on long-term debt and our exposure to foreign currency fluctuations. For derivatives that are designated as hedges, changes in their fair values that are considered effective are either accounted for in earnings or recognized in other comprehensive income or loss until the hedged item is recognized in earnings, depending on the nature of the hedge. Any ineffective portion of a derivative's change in fair value is immediately recognized in earnings. Financial instruments that do not qualify for hedge accounting are recorded at fair value with unrealized gains or losses reported in earnings. All qualifying derivative financial instruments are recognized at their fair values in either assets or liabilities at the balance sheet date and are reported on a gross basis. The fair values of our derivative financial instruments are discussed in Note 4 and Note 7.

Insurance

We are self-insured for certain losses related to general liability (including product liability), workers' compensation, employee group medical, and automobile claims. We recognize the expected ultimate cost for claims incurred (undiscounted) at the balance sheet date as a liability. The expected ultimate cost for claims incurred is estimated based upon analysis of historical data and actuarial estimates. We also maintain network security and privacy liability insurance coverage to limit our exposure to losses such as those that may be caused by a significant compromise or breach of our data security. Insurance-related expenses are included in SG&A.

Treasury Stock

Treasury stock is reflected as a reduction of stockholders' equity at cost. We use the weighted-average purchase cost to determine the cost of treasury stock that is reissued, if any.

Net Sales

On January 29, 2018, we adopted ASU No. 2014-09 using the modified retrospective transition method which requires that we recognize revenue differently pre- and post-adoption. See "—Recently Adopted Accounting Pronouncements—ASU No. 2014-09" below for more information.

Fiscal 2018 and Subsequent Periods. We recognize revenue, net of expected returns and sales tax, at the time the customer takes possession of merchandise or when a service is performed. The liability for sales returns, including the impact to gross profit, is estimated based on historical return levels and recognized at the transaction price. We also recognize a return asset, and corresponding adjustment to cost of sales, for our right to recover the goods returned by the customer, measured at the former carrying amount of the goods, less any expected recovery cost. At each financial reporting date, we assess our estimates of expected returns, refund liabilities, and return assets.

Net sales include services revenue generated through a variety of installation, home maintenance, and professional service programs. In these programs, the customer selects and purchases material for a project, and we provide or arrange for professional installation. These programs are offered through our stores and in-home sales programs. Under certain programs, when we provide or arrange for the installation of a project and the subcontractor provides material as part of the installation, both the material and labor are included in services revenue. We recognize this revenue when the service for the customer is complete, which is not materially different from recognizing the revenue over the service period as the substantial majority of our services are completed within one week.

For product sold in stores or online, payment is typically due at the point of sale. For services, payment in full is due upon completion of the job. When we receive payment from customers before the customer has taken possession of the merchandise or the service has been performed, the amount received is recorded as deferred revenue until the sale or service is complete. Such performance obligations are part of contracts with expected original durations of three months or less. We further record deferred revenue for the sale of gift cards and recognize the associated revenue upon the redemption of those gift cards in net sales. Gift card breakage income, which is our estimate of the non-redeemed gift card balance, was immaterial in fiscal 2018.

We also have agreements with third-party service providers who directly extend credit to customers and manage our PLCC program. Deferred interest charges incurred for our deferred financing programs offered to these customers, interchange fees charged to us for their use of the cards, and any profit sharing with the third-party service providers are included in net sales.

Fiscal 2017 and Fiscal 2016. We recognize revenue, net of estimated returns and sales tax, at the time the customer takes possession of merchandise or when a service is performed. The liability for sales returns, including the impact to gross profit, is estimated based on historical return levels.

Net sales include services revenue generated through a variety of installation, home maintenance, and professional service programs. In these programs, the customer selects and purchases material for a project, and we provide or arrange professional installation. These programs are offered through our stores and in-home sales programs. Under certain programs, when we provide or arrange the installation of a project and the subcontractor provides material as part of the installation, both the material and labor are included in services revenue. We recognize this revenue when the service for the customer is complete.

When we receive payment from customers before the customer has taken possession of the merchandise or the service has been performed, the amount received is recorded as deferred revenue until the sale or service is complete. We also record deferred revenue for the sale of gift cards and recognize this revenue upon the redemption of gift cards in net sales. Gift card breakage income, which is our estimate of the non-redeemed gift card balance, was immaterial in fiscal 2017 and fiscal 2016.

Cost of Sales

Cost of sales includes the actual cost of merchandise sold and services performed; the cost of transportation of merchandise from vendors to our distribution network, stores, or customers; shipping and handling costs from our stores or distribution network to customers; and the operating cost and depreciation of our sourcing and distribution network and online fulfillment centers. In fiscal 2017 and fiscal 2016, cost of sales also included cost of deferred interest programs offered through our PLCC programs.

Cost of Credit

We have agreements with third-party service providers who directly extend credit to customers, manage our PLCC program, and own the related receivables. We have evaluated the third-party entities holding the receivables under the program and concluded that they should not be consolidated. The agreement with the primary third-party service provider for our PLCC program expires in 2028, with us having the option, but no obligation, to purchase the receivables at the end of the agreement. The deferred interest charges we incur for our deferred financing programs offered to our customers are included in net sales in fiscal 2018 and subsequent periods and in cost of sales in fiscal 2017 and fiscal 2016. The interchange fees charged to us for our customers’ use of the cards and any profit sharing with the third-party service providers are included in net sales in fiscal 2018 and subsequent periods and in SG&A in fiscal 2017 and fiscal 2016. The sum of the deferred interest charges, interchange fees, and any profit sharing is referred to as the cost of credit of the PLCC program.

Vendor Allowances

Vendor allowances primarily consist of volume rebates that are earned as a result of attaining certain purchase levels and co-op advertising allowances for the promotion of vendors' products that are typically based on guaranteed minimum amounts with additional amounts being earned for attaining certain purchase levels. These vendor allowances are accrued as earned, with those allowances received as a result of attaining certain purchase levels accrued over the incentive period based on estimates of purchases. Volume rebates and certain co-op advertising allowances earned are initially recorded as a reduction in merchandise inventories and a subsequent reduction in cost of sales when the related product is sold.

Certain other co-op advertising allowances that are reimbursements of specific, incremental, and identifiable costs incurred to promote vendors' products are recorded as an offset against advertising expense in SG&A. The co-op advertising allowances recorded as an offset to advertising expense follow.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Specific, incremental, and identifiable co-op advertising allowances	$ 235	$ 198	$ 166

Advertising Expense

Television and radio advertising production costs, along with media placement costs, are expensed when the advertisement first appears. Certain co-op advertising allowances are recorded as an offset against advertising expense. Gross advertising expense included in SG&A follows.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Gross advertising expense	$ 1,156	$ 995	$ 955

Stock-Based Compensation

We are currently authorized to issue incentive and nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, and deferred shares to certain of our associates, officers, and directors under certain stock incentive plans. We measure and recognize compensation expense for all share-based payment awards made to associates and directors based on estimated fair values. The value of the portion of the award that is ultimately expected to vest is recognized as stock-based compensation expense over the requisite service period or as restrictions lapse. Additional information on our stock-based payment awards is included in Note 8.

Income Taxes

Income taxes are accounted for under the asset and liability method. We provide for federal, state, and foreign income taxes currently payable, as well as for those deferred due to timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates is recognized as income or expense in the period that includes the enactment date.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

We file a consolidated U.S. federal income tax return which includes certain eligible subsidiaries. Non-U.S. subsidiaries and certain U.S. subsidiaries, which are consolidated for financial reporting purposes, are not eligible to be included in our consolidated U.S. federal income tax return. Separate provisions for income taxes have been determined for these entities. For unremitted earnings of our non-U.S. subsidiaries, we are required to make an assertion regarding reinvestment or repatriation for tax purposes. For any earnings that we do not make a permanent reinvestment assertion, we recognize a provision for deferred income taxes. For earnings where we have made a permanent reinvestment assertion, no provision is recognized. See Note 5 for further discussion.

Comprehensive Income

Comprehensive income includes net earnings adjusted for certain gains and losses that are excluded from net earnings under GAAP, which consists primarily of foreign currency translation adjustments.

Foreign Currency Translation

Assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange on the last day of the reporting period. Revenues and expenses are translated using average exchange rates for the period and equity transactions are translated using the actual rate on the day of the transaction.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period’s financial statement presentation. See "Recently Adopted Accounting Pronouncements" below for a discussion of our adoption of new accounting standards.

Recently Adopted Accounting Pronouncements

ASU No. 2016-16. In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," which requires an entity to recognize the income tax consequences of an intercompany transfer of assets other than inventory when the transfer occurs. An entity will continue to recognize the income tax consequences of an intercompany transfer of inventory when the inventory is sold to a third party.

On January 29, 2018, we adopted ASU No. 2016-16 using the modified retrospective transition method with no impact on our consolidated financial statements. We expect the impact of the adoption to be immaterial to our financial position, results of operations, and cash flows on an ongoing basis.

ASU No. 2014-09. In May 2014, the FASB issued a new standard related to revenue recognition. Under ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. On January 29, 2018, we adopted ASU No. 2014-09 using the modified retrospective transition method.

In preparation for implementation of the standard, we finalized key accounting assessments and then implemented internal controls and updated processes to appropriately recognize and present the associated financial information. Based on these efforts, we determined that the adoption of ASU No. 2014-09 changes the presentation of (i) certain expenses and cost reimbursements associated with our PLCC program (now recognized in net sales), (ii) certain expenses related to the sale of gift cards to customers (now recognized in operating expense), and (iii) gift card breakage income (now recognized in net sales). We also have changed our recognition of gift card breakage income to be recognized proportionately as redemption occurs, rather than based on historical redemption patterns.

In addition, the adoption of ASU No. 2014-09 requires that we recognize our sales return allowance on a gross basis rather than as a net liability. As such, we now recognize (i) a return asset for the right to recover the goods returned by the customer, measured at the former carrying amount of the goods, less any expected recovery costs (recorded as an increase to other current assets) and (ii) a return liability for the amount of expected returns (recorded as an increase to other accrued expenses and a decrease to receivables, net).

We applied ASU No. 2014-09 only to contracts that were not completed prior to fiscal 2018. The cumulative effect of initially applying ASU No. 2014-09 was a $99 million reduction to deferred revenue, a $24 million increase to deferred income taxes (included in other long-term liabilities), and a $75 million increase to the opening balance of retained earnings as of January 29, 2018. The comparative prior period information continues to be reported under the accounting standards in effect during those periods. We expect the impact of the adoption to be immaterial to our financial position, results of operations, and cash flows on an ongoing basis.

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Excluding the effect of the opening balance sheet adjustment noted above, the impact of the adoption of ASU No. 2014-09 on our consolidated balance sheet as of February 3, 2019 follows.

in millions	**As Reported**	**ASU No. 2014-09 Impact**	**Excluding ASU No. 2014-09 Impact**
Receivables, net	$ 1,936	$ (40)	$ 1,976
Other current assets	890	256	634
Other accrued expenses	2,611	216	2,395

The impact of the adoption of ASU No. 2014-09 on our consolidated statements of earnings for fiscal 2018 follows.

in millions	**As Reported**	**ASU No. 2014-09 Impact**	**Excluding ASU No. 2014-09 Impact**
Net sales	$ 108,203	$ 216	$ 107,987
Cost of sales	71,043	(382)	71,425
Gross profit	37,160	598	36,562
Selling, general and administrative	19,513	598	18,915

Recently Issued Accounting Pronouncements

ASU No. 2018-15. In August 2018, the FASB issued ASU No. 2018-15, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract," which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU No. 2018-15 is effective for us in the first quarter of fiscal 2020 and early adoption is permitted. We are evaluating the effect that ASU No. 2018-15 will have on our consolidated financial statements and related disclosures.

ASU No. 2018-02. In February 2018, the FASB issued ASU No. 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which allows for an optional reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects as a result of the Tax Act. ASU No. 2018-02 is effective for us in the first quarter of fiscal 2019 and early adoption is permitted. Two transition methods are available: at the beginning of the period of adoption, or retrospective to each period in which the income tax effects of the Tax Act related to items remaining in accumulated other comprehensive income are recognized. We will adopt this standard in the first quarter of 2019, applying the adjustment at the beginning of the period of adoption. We have evaluated the effect that ASU No. 2018-02 will have on our consolidated financial statements and related disclosures and noted no material impact.

ASU No. 2017-12. In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," which amends the hedge accounting recognition and presentation requirements. ASU No. 2017-12 eliminates the concept of recognizing periodic hedge ineffectiveness for cash flow and net investment hedges and allows an entity to apply the shortcut method to partial-term fair value hedges of interest rate risk. ASU No. 2017-12 is effective for us in the first quarter of fiscal 2019. Early adoption is permitted in any interim period after issuance of this update. We have evaluated the effect that ASU No. 2017-12 will have on our consolidated financial statements and related disclosures and noted no material impact.

ASU No. 2017-04. In January 2017, the FASB issued ASU No. 2017-04, "Intangibles–Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which simplifies how an entity is required to test goodwill for impairment. The amendments in ASU No. 2017-04 require goodwill impairment to be measured using the difference between the carrying amount and the fair value of the reporting unit and require the loss recognized to not exceed the total amount of goodwill allocated to that reporting unit. ASU No. 2017-04 should be applied on a prospective basis and is effective for our annual goodwill impairment tests beginning in the first quarter of fiscal 2020. Early adoption is permitted. We have evaluated the effect that ASU No. 2017-04 will have on our consolidated financial statements and related disclosures and noted no material impact.

ASU No. 2016-02. In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which establishes a right-of-use model and requires an entity that is a lessee to recognize the right-of-use assets and liabilities arising from leases on its balance sheet. ASU No. 2016-02 also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. This new standard is effective for us on February 4, 2019 (the “effective date”).

ASU No. 2016-02 was subsequently amended by ASU No. 2018-01, "Land Easement Practical Expedient for Transition to Topic 842"; ASU No. 2018-10, "Codification Improvements to Topic 842"; and ASU No. 2018-11, "Targeted Improvements". ASU 2016-02 and relevant updates require a modified retrospective transition, with the cumulative effect of transition, including initial recognition of lease assets and liabilities for existing operating leases as of (i) the effective date or (ii) the beginning of the earliest comparative period presented. These updates also provide a number of practical expedients for transition and implementation that will be elected.

We will adopt this standard using the modified retrospective method with a cumulative-effect adjustment to the opening balance of retained earnings as of the effective date. We plan to elect the package of practical expedients in transition, which permits us to not reassess our prior conclusions pertaining to lease identification, lease classification, and initial direct costs on leases that commenced prior to our adoption of the new standard. We do not expect to elect the use-of-hindsight or land easements transition practical expedients. Additionally, we will elect ongoing practical expedients including the option to not recognize right-of-use assets and lease liabilities related to leases with an original term of twelve months or less.

We believe that ASU 2016-02 will have a material impact on our consolidated balance sheet as a result of the requirement to recognize right-of-use assets and lease liabilities for our operating leases upon adoption. We estimate total assets and liabilities will increase approximately $6 billion upon adoption. This estimate may change as the implementation is finalized as a result of changes to our lease portfolio prior to adoption. We do not believe that there will be a material impact to our results of operations, stockholders’ equity, or cash flows upon adoption of ASU No. 2016-02.

We reviewed and selected a new lease accounting system and are currently accumulating and processing lease data into the system. We are continuing to evaluate our internal control framework, including implementing changes to our processes, controls, and systems in connection therewith, to determine any necessary changes upon adoption of ASU 2016-02.

Recent accounting pronouncements pending adoption not discussed above are either not applicable or are not expected to have a material impact on us.

2. NET SALES AND SEGMENT REPORTING

We currently conduct our retail operations in the U.S., Canada, and Mexico, each of which represents one of our three operating segments. Our operating segments reflect the way in which internally-reported financial information is used to make decisions and allocate resources. For disclosure purposes, we aggregate these three operating segments into one reportable segment due to their similar operating and financial characteristics and how the business is managed.

The assets of each of our operating segments primarily consist of net property and equipment and merchandise inventories. Long-lived assets, classified by geography, follow.

in millions	February 3, 2019	January 28, 2018	January 29, 2017
Long-lived assets – in the U.S.	$ 19,930	$ 19,526	$ 19,519
Long-lived assets – outside the U.S.	2,445	2,549	2,395
Total long-lived assets	$ 22,375	$ 22,075	$ 21,914

No sales to an individual customer accounted for more than 10% of revenue during any of the last three fiscal years. Net sales, classified by geography, follow.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Net sales – in the U.S.	$ 99,386	$ 92,413	$ 86,615
Net sales – outside the U.S.	8,817	8,491	7,980

Net sales	$ 108,203	$ 100,904	$ 94,595

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Net sales by products and services follow.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Net sales – products	$ 102,933	$ 95,956	$ 90,028
Net sales – services	5,270	4,948	4,567
Net sales	$ 108,203	$ 100,904	$ 94,595

Net sales by major product lines (and related services) follow.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Building Materials	$ 39,967	$ 37,331	$ 34,768
Décor	36,238	33,583	31,599
Hardlines	31,998	29,990	28,228
Net sales	$ 108,203	$ 100,904	$ 94,595

Major product lines and the related merchandising departments (and related services) follow.

Major Product Line	Merchandising Departments
Building Materials	Building Materials, Electrical, Lighting, Lumber, Millwork, and Plumbing
Décor	Appliances, Décor, Flooring, Kitchen and Bath, and Paint
Hardlines	Hardware, Indoor Garden, Outdoor Garden, and Tools

Net sales by merchandising department (and related services) follow.

	Fiscal 2018		Fiscal 2017		Fiscal 2016	
dollars in millions	Net Sales	% of Net Sales	Net Sales	% of Net Sales	Net Sales	% of Net Sales
Appliances	$ 9,001	8.3	$ 8,146	8.1	$ 7,366	7.8
Building Materials	7,772	7.2	7,272	7.2	6,785	7.2
Décor	3,580	3.3	3,174	3.1	3,011	3.2
Electrical	5,576	5.2	4,994	4.9	4,524	4.8
Flooring	7,475	6.9	6,980	6.9	6,410	6.8
Hardware	6,194	5.7	5,874	5.8	5,617	5.9
Indoor Garden	10,438	9.6	9,777	9.7	9,190	9.7
Kitchen and Bath	7,721	7.1	7,276	7.2	7,103	7.5
Lighting	4,436	4.1	4,448	4.4	4,468	4.7
Lumber	8,388	7.8	7,790	7.7	6,828	7.2
Millwork	5,743	5.3	5,383	5.3	5,139	5.4
Outdoor Garden	7,257	6.7	6,988	6.9	6,762	7.1
Paint	8,461	7.8	8,007	7.9	7,709	8.1
Plumbing	8,052	7.4	7,444	7.4	7,024	7.4
Tools	8,109	7.5	7,351	7.3	6,659	7.0
Total	$ 108,203	100.0 %	$ 100,904	100.0 %	$ 94,595	100.0 %

Note: Certain percentages may not sum to totals due to rounding. Net sales for certain merchandising departments were reclassified in fiscal 2018. As a result, prior year net sales have been reclassified to conform with the current year presentation. Prior year percent of net sales data also reflect the new classifications.

3. PROPERTY AND LEASES

Net Property and Equipment

The components of net property and equipment follow.

in millions	February 3, 2019	January 28, 2018
Land	$ 8,363	$ 8,352
Buildings	18,199	18,073
Furniture, fixtures, and equipment	12,460	11,506
Leasehold improvements	1,705	1,637
Construction in progress	820	538
Capital leases	1,392	1,308
Property and equipment, at cost	42,939	41,414
Less accumulated depreciation and capital lease amortization	20,564	19,339
Net property and equipment	$ 22,375	$ 22,075

Depreciation and capital lease amortization expense, including depreciation expense included in cost of sales, follows.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Depreciation and capital lease amortization expense	$ 2,076	$ 1,983	$ 1,899

Leases

We lease certain retail locations, office space, warehouse and distribution space, equipment, and vehicles. While most of the leases are operating leases, certain locations and equipment are leased under capital leases. As leases approach maturity, we consider various factors such as market conditions and the terms of any renewal options that may exist to determine whether we will renew or replace the lease. Short-term and long-term obligations for capital leases are included in the applicable long-term debt category based on maturity.

Assets under capital leases (net of accumulated amortization) recorded in net property and equipment follow.

in millions	February 3, 2019	January 28, 2018
Capital leases, net	$ 856	$ 821

Certain lease agreements include escalating rents over the lease terms. Real estate taxes, insurance, maintenance, and operating expenses applicable to the leased property are our obligations under the lease agreements.

Our total rent expense related to operating leases follows.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Total rent expense	$ 1,091	$ 1,053	$ 984

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The approximate future minimum lease payments under capital and operating leases at February 3, 2019 follow.

in millions	Operating Leases	Capital Leases
Fiscal 2019	$ 976	$ 150
Fiscal 2020	912	167
Fiscal 2021	792	143
Fiscal 2022	682	142
Fiscal 2023	584	137
Thereafter	3,090	970
	$ 7,036	1,709
Less imputed interest		660
Net present value of capital lease obligations		1,049
Less current installments		57
Long-term capital lease obligations, excluding current installments		$ 992

4. DEBT AND DERIVATIVE INSTRUMENTS

Short-Term Debt

We have commercial paper programs with an aggregate borrowing capacity of $3.0 billion. All of our short-term borrowings in fiscal 2018 and fiscal 2017 were under these commercial paper programs. In connection with these programs, we have back-up credit facilities with a consortium of banks for borrowings up to $3.0 billion, which consist of a 364-day $1.0 billion credit facility and a five-year $2.0 billion credit facility. In December 2018, we completed the renewal of our 364-day $1.0 billion credit facility, extending the maturity from December 2018 to December 2019. In December 2017, we replaced our five-year $2.0 billion credit facility that was scheduled to expire in December 2019, with a new, substantially identical five-year $2.0 billion credit facility that expires in December 2022.

Certain information on our commercial paper programs follows.

dollars in millions	February 3, 2019	January 28, 2018
Weighted average interest rate	2.41 %	1.45 %
Balance outstanding at fiscal year-end	$ 1,339	$ 1,559
Maximum amount outstanding at any month-end	$ 2,264	$ 1,559
Average daily short-term borrowings	$ 621	$ 173

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Long-Term Debt

Details of the components of our long-term debt follow.

in millions	Interest Payable	Principal Amount	Carrying Amount February 3, 2019	Carrying Amount January 28, 2018
2.25% Senior notes due September 2018	Semi-annually	$ —	$ —	$ 1,150
2.00% Senior notes due June 2019	Semi-annually	1,000	999	998
Floating rate senior notes due June 2020	Quarterly	500	499	499
1.80% Senior notes due June 2020	Semi-annually	750	749	748
3.95% Senior notes due September 2020	Semi-annually	500	499	501
4.40% Senior notes due April 2021	Semi-annually	1,000	999	998
2.00% Senior notes due April 2021	Semi-annually	1,350	1,345	1,343
Floating rate senior notes due March 2022	Quarterly	300	299	—
3.25% Senior notes due March 2022	Semi-annually	700	696	—
2.625% Senior notes due June 2022	Semi-annually	1,250	1,245	1,243
2.70% Senior notes due April 2023	Semi-annually	1,000	997	996
3.75% Senior notes due February 2024	Semi-annually	1,100	1,094	1,093
3.35% Senior notes due September 2025	Semi-annually	1,000	995	995
3.00% Senior notes due April 2026	Semi-annually	1,300	1,288	1,287
2.125% Senior notes due September 2026	Semi-annually	1,000	987	986
2.80% Senior notes due September 2027	Semi-annually	1,000	981	980
3.90% Senior notes due December 2028	Semi-annually	1,000	1,005	—
5.875% Senior notes due December 2036	Semi-annually	3,000	2,951	2,949
5.40% Senior notes due September 2040	Semi-annually	500	495	495
5.95% Senior notes due April 2041	Semi-annually	1,000	989	988
4.20% Senior notes due April 2043	Semi-annually	1,000	989	988
4.875% Senior notes due February 2044	Semi-annually	1,000	979	978
4.40% Senior notes due March 2045	Semi-annually	1,000	977	977
4.25% Senior notes due April 2046	Semi-annually	1,600	1,585	1,584
3.90% Senior notes due June 2047	Semi-annually	750	738	738
4.50% Senior notes due December 2048	Semi-annually	1,500	1,462	—
3.50% Senior notes due September 2056	Semi-annually	1,000	972	971
Total senior notes		$ 27,100	26,814	24,485
Capital lease obligations; payable in varying installments through January 31, 2055			1,049	984
Total long-term debt			27,863	25,469
Less current installments of long-term debt			1,056	1,202
Long-term debt, excluding current installments			$ 26,807	$ 24,267

December 2018 Issuance. In December 2018, we issued four tranches of senior notes.

- The first tranche consisted of $300 million of floating rate senior notes due March 1, 2022 (the "2022 floating rate notes"). The 2022 floating rate notes bear interest at a variable rate determined quarterly equal to the three-month LIBOR plus 31 basis points. Interest on the 2022 floating rate notes is due quarterly on March 1, June 1, September 1, and December 1 of each year, beginning March 1, 2019.

- The second tranche consisted of $700 million of 3.25% senior notes due March 1, 2022 (the "2022 notes") at a discount of $2 million. Interest on the 2022 notes is due semi-annually on March 1 and September 1 of each year, beginning March 1, 2019.

- The third tranche consisted of $1.0 billion of 3.90% senior notes due December 6, 2028 (the"2028 notes") at a discount of $7 million. Interest on the 2028 notes is due semi-annually on June 6 and December 6 of each year, beginning June 6, 2019.

- The fourth tranche consisted of $1.5 billion of 4.50% senior notes due December 6, 2048 (the "2048 notes") at a discount of $25 million (together with the 2022 floating rate notes, the 2022 notes and the 2028 notes, the "December 2018 issuance"). Interest on the 2048 notes is due semi-annually on June 6 and December 6 of each year, beginning June 6, 2019.

- Issuance costs totaled $22 million. The net proceeds of the December 2018 issuance will be used for general corporate purposes, including repurchases of common stock.

September 2017 Issuance. In September 2017, we issued a single tranche of senior notes.

- The tranche consisted of $1.0 billion of 2.80% senior notes due September 14, 2027 (the "2027 notes" and the "September 2017 issuance") at a discount of $3 million. Interest on the 2027 notes is due semi-annually on March 14 and September 14 of each year, beginning March 14, 2018.

- Issuance costs totaled $6 million. The net proceeds of the September 2017 issuance were used to repay our floating rate notes due September 15, 2017, and for general corporate purposes, including repurchases of our common stock.

June 2017 Issuance. In June 2017, we issued three tranches of senior notes.

- The first tranche consisted of $500 million of floating rate senior notes due June 5, 2020 (the "2020 floating rate notes"). The 2020 floating rate notes bear interest at a variable rate determined quarterly equal to the three-month 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.

- The second tranche consisted of $750 million of 1.80% senior notes due June 5, 2020 (the "2020 notes") at a discount of $1 million. Interest on the 2020 notes is due semi-annually on June 5 and December 5 of each year, beginning December 5, 2017.

- The third tranche consisted of $750 million of 3.90% senior notes due June 15, 2047 (the "2047 notes") at a discount of $5 million (together with the 2020 floating rate notes and the 2020 notes, the "June 2017 issuance"). Interest on the 2047 notes is due semi-annually on June 15 and December 15 of each year, beginning December 15, 2017.

- Issuance costs totaled $12 million. The net proceeds of the June 2017 issuance were used for general corporate purposes, including repurchases of our common stock.

Redemption. All of our senior notes, other than our outstanding floating rate notes, may be redeemed by us at any time, in whole or in part, at the redemption price plus accrued interest up to the redemption date. With respect to the 2020 notes and the 2022 notes, 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 on the notes to be redeemed that would be due after the related redemption date. With respect to all other notes, 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 us to redeem those notes at 101% of the aggregate principal amount of the notes plus accrued interest up to the redemption date. We are generally not limited under the indentures governing the notes in our 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 our liquidity or capital resources.

Maturities of Long-Term Debt. Our long-term debt maturities, excluding capital leases, follow.

in millions	Principal
Fiscal 2019	$ 1,000
Fiscal 2020	1,750
Fiscal 2021	2,350
Fiscal 2022	2,250
Fiscal 2023	1,000
Thereafter	18,750

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Derivative Instruments

We had outstanding cross currency swap agreements with a combined notional amount of $326 million at February 3, 2019 and $626 million at January 28, 2018, accounted for as cash flow hedges, to hedge foreign currency fluctuations on certain intercompany debt. The approximate fair values of these agreements were assets of $121 million at February 3, 2019 and $233 million at January 28, 2018, which were the estimated amounts we would have received to settle the agreements and were included in other assets.

We had outstanding interest rate swap agreements with combined notional amounts of $1.3 billion at both February 3, 2019 and January 28, 2018. These agreements were accounted for as fair value hedges that swap fixed for variable rate interest to hedge changes in the fair values of certain senior notes. The fair values of these agreements were not material at February 3, 2019 and January 28, 2018.

We had outstanding foreign currency forward contracts with a combined notional amount of $16 million at February 3, 2019. These agreements were accounted for as cash flow hedges that hedge the variability of forecasted cash flow associated with certain payments made in our foreign operations. At January 28, 2018, we had outstanding foreign currency forward contracts with a combined notional amount of $300 million. These agreements were accounted for as net investment hedges that hedge against foreign currency exposure on our net investment in certain subsidiaries and were all settled during fiscal 2018. At February 3, 2019 and January 28, 2018, the fair values of these agreements were not material.

5. INCOME TAXES

Tax Reform

On December 22, 2017, the U.S. enacted comprehensive tax legislation with the Tax Act, making broad and complex changes to U.S. tax law, including lowering the U.S. corporate income tax rate to 21%, transitioning to a modified territorial system, and providing for current expensing of certain qualifying capital expenditures. Also in December 2017, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. As disclosed in our 2017 Form 10-K, we were able to reasonably estimate certain effects and, therefore, recorded a total provisional charge of $127 million. The provisional charge included (i) a charge for the deemed repatriation of historical earnings of foreign subsidiaries, (ii) a provisional benefit for the remeasurement of deferred tax assets and liabilities, and (iii) an estimated benefit due to a lower U.S. statutory tax rate. As of February 3, 2019, we have completed our accounting for all of the enactment-date income tax effects of the Tax Act. During fiscal 2018, we adjusted the provisional charge by a net benefit of $85 million, for a final tax charge of $42 million. These adjustments were made upon our further analysis of certain aspects of the Tax Act, refinement of our calculations, and the issuance of guidance by the U.S. Department of the Treasury. The components of the provisional charge recognized in fiscal 2017 and the adjustments made during fiscal 2018 follow.

in millions	Deemed Repatriation	Deferred Tax Remeasure-ment	Statutory Tax Rate Impact	Total
Provisional tax charge (benefit) - recognized in fiscal 2017	$ 400	$ (147)	$ (126)	$ 127
Tax charge (benefit) adjustment - finalized in fiscal 2018	(62)	(22)	(1)	(85)
Total tax charge (benefit)	$ 338	$ (169)	$ (127)	$ 42

We have elected to pay our transition tax over the eight-year period provided in the Tax Act. As of February 3, 2019, the remaining balance of our transition tax obligation was $14 million, after required application of overpayments.

The Tax Act also created a new requirement that certain income (referred to as global intangible low-taxed income or “GILTI”) earned by controlled foreign corporations, or CFCs, must be included currently in the gross income of the CFCs’ U.S. shareholder. Due to the complexity of the new GILTI tax rules, we recorded no GILTI related deferred taxes as of January 28, 2018. After further considerations in fiscal 2018, we have elected to account for GILTI in the period the tax is incurred.

We expect additional regulatory guidance and technical clarifications from the U.S. Department of the Treasury and IRS within the next 12 months. Any subsequent adjustment to these amounts will be recorded to the provision for income taxes in the period in which the guidance is issued or finalized.

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Provision for Income Taxes

Our earnings before the provision for income taxes follow.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
U.S.	$ 13,456	$ 12,682	$ 11,568
Foreign	1,100	1,016	923
Total	$ 14,556	$ 13,698	$ 12,491

Our provision for income taxes follows.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Current:			
Federal	$ 2,495	$ 4,128	$ 3,870
State	544	499	462
Foreign	372	331	315
Total current	3,411	4,958	4,647
Deferred:			
Federal	67	(67)	(102)
State	1	89	13
Foreign	(44)	88	(24)
Total deferred	24	110	(113)
Provision for income taxes	$ 3,435	$ 5,068	$ 4,534

Our combined federal, state, and foreign effective tax rates follow.

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Combined federal, state, and foreign effective tax rates	23.6 %	37.0 %	36.3 %

The reconciliation of our provision for income taxes at the federal statutory rates of 21% for fiscal 2018, approximately 34% for fiscal 2017, and 35% for fiscal 2016 to the actual tax expense follows.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Income taxes at federal statutory rate	$ 3,057	$ 4,648	$ 4,372
State income taxes, net of federal income tax benefit	443	369	309
Tax on mandatory deemed repatriation	(62)	400	—
Other, net	(3)	(349)	(147)
Total	$ 3,435	$ 5,068	$ 4,534

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Deferred Taxes

The tax effects of temporary differences that give rise to significant portions of our deferred tax assets and deferred tax liabilities follow.

in millions	February 3, 2019	January 28, 2018
Assets:		
Deferred compensation	$ 183	$ 185
Accrued self-insurance liabilities	298	295
State income taxes	96	109
Non-deductible reserves	231	220
Net operating losses	17	19
Other	116	124
Total deferred tax assets	941	952
Valuation allowance	—	—
Total deferred tax assets after valuation allowance	941	952
Liabilities:		
Merchandise inventories	(9)	(9)
Property and equipment	(893)	(770)
Goodwill and other intangibles	(179)	(243)
Other	(230)	(251)
Total deferred tax liabilities	(1,311)	(1,273)
Net deferred tax liabilities	$ (370)	$ (321)

Our noncurrent deferred tax assets and noncurrent deferred tax liabilities, netted by tax jurisdiction, follow.

in millions	February 3, 2019	January 28, 2018
Other assets	$ 121	$ 119
Deferred income taxes	(491)	(440)
Net deferred tax liabilities	$ (370)	$ (321)

We believe that the realization of the deferred tax assets is more likely than not, based upon the expectation that we will generate the necessary taxable income in future periods.

At February 3, 2019, we had federal, state, and foreign net operating loss carryforwards available to reduce future taxable income, expiring at various dates beginning in 2019 to 2038. We have concluded that it is more likely than not that the tax benefits related to the federal, state, and foreign net operating losses will be realized.

Reinvestment of Unremitted Earnings

Substantially all of our current year foreign cash flows in excess of working capital and cash needed for strategic investments are not intended to be indefinitely reinvested offshore. Therefore, the tax effects of repatriation (including applicable state and local taxes and foreign withholding taxes) of such cash flows have been provided for in the accompanying consolidated statements of earnings. We intend to reinvest substantially all of the approximately $3 billion of non-cash unremitted earnings of our non-U.S. subsidiaries indefinitely. Accordingly, no provision for state and local taxes or foreign withholding taxes was recorded on these unremitted earnings in the accompanying consolidated statements of earnings. It is impracticable for us to determine the amount of unrecognized deferred tax liabilities on these indefinitely reinvested earnings due to the complexities associated with the hypothetical calculation.

Tax Return Examination Status

Our income tax returns are routinely examined by U.S. federal, state and local, and foreign tax authorities. With few exceptions, as of February 3, 2019, the Company is no longer subject to U.S. federal examinations by tax authorities for years before fiscal 2010. During fiscal 2018, the Company settled a transfer pricing issue between the U.S. and Mexican tax authorities. The resolution of this issue reduced our unrecognized tax benefits by $89 million. The net impact of the settlement resulted in an immaterial tax charge in fiscal 2018. Our U.S. federal tax returns for fiscal years 2010 through 2014 are currently under examination by the IRS. With respect to these years, the IRS has issued a proposed adjustment relating to transfer pricing between our entities in the U.S. and China. We intend to defend our position using all available remedies including bi-lateral relief. There are also ongoing U.S. state and local audits and other foreign audits covering fiscal years 2005 through 2017. We do not expect the results from any ongoing income tax audit to have a material impact on our consolidated financial condition, results of operations, or cash flows.

Over the next twelve months, it is reasonably possible that the resolution of federal and state tax examinations could reduce our unrecognized tax benefits by $65 million. Final settlement of these audit issues may result in payments that are more or less than this amount, but we do not anticipate the resolution of these matters will result in a material change to our consolidated financial condition or results of operations.

Unrecognized Tax Benefits

Reconciliations of the beginning and ending amount of our gross unrecognized tax benefits follow.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Unrecognized tax benefits balance at beginning of fiscal year	$ 637	$ 659	$ 689
Additions based on tax positions related to the current year	91	74	147
Additions for tax positions of prior years	100	15	14
Reductions for tax positions of prior years	(245)	(93)	(161)
Reductions due to settlements	(66)	(1)	(16)
Reductions due to lapse of statute of limitations	(23)	(17)	(14)
Unrecognized tax benefits balance at end of fiscal year	$ 494	$ 637	$ 659

Unrecognized tax benefits that if recognized would affect our annual effective income tax rate on net earnings were $398 million at February 3, 2019; $483 million at January 28, 2018; and $382 million at January 29, 2017.

Interest and Penalties

Net adjustments to accruals for interest and penalties associated with uncertain tax positions resulted in a benefit of $33 million in fiscal 2018, and expenses of $24 million in fiscal 2017 and $20 million in fiscal 2016. Interest and penalties are included in interest expense and SG&A, respectively.

Our total accrued interest and penalties follow.

in millions	February 3, 2019	January 28, 2018
Total accrued interest and penalties	$ 101	$ 134

6. STOCKHOLDERS' EQUITY

Stock Rollforward

A reconciliation of the number of shares of our common stock follows.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Common stock:			
Balance at beginning of year	1,780	1,776	1,772
Shares issued under employee stock plans	2	4	4
Balance at end of year	1,782	1,780	1,776
Treasury stock:			
Balance at beginning of year	(622)	(573)	(520)
Repurchases of common stock	(55)	(49)	(53)
Balance at end of year	(677)	(622)	(573)
Shares outstanding at end of year	1,105	1,158	1,203

Annual per share cash dividends follow.

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Cash dividends per share	$ 4.12	$ 3.56	$ 2.76

Accelerated Share Repurchase Agreements. We enter into ASR agreements from time to time with third-party financial institutions to repurchase shares of our common stock. Under an ASR agreement, we pay a specified amount to the financial institution and receive an initial delivery of shares. This initial delivery of shares represents the minimum number of shares that we 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 our common stock over the term of the 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 terms of each ASR agreement entered into during the last three fiscal years, structured as outlined above, follow (in millions).

Agreement Date	Settlement Date	Agreement Amount	Initial Shares Delivered	Additional Shares Delivered	Total Shares Delivered
Q2 2017	Q2 2017	$ 1,650	9.7	1.1	10.8
Q3 2017	Q4 2017	1,200	6.7	0.7	7.4
Q1 2018	Q2 2018	750	3.4	0.8	4.2
Q2 2018	Q3 2018	1,600	7.1	1.0	8.1

7. FAIR VALUE MEASUREMENTS

The fair value of an asset is considered to be the price at which the asset could be sold in an orderly transaction between unrelated knowledgeable and willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, rather than the amount that would be paid to settle the liability with the creditor. Assets and liabilities recorded at fair value are measured using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities that are measured at fair value on a recurring basis follow.

in millions	Fair Value at February 3, 2019 Using			Fair Value at January 28, 2018 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative agreements – assets	$ —	$ 138	$ —	$ —	$ 235	$ —
Derivative agreements – liabilities	—	(11)	—	—	(12)	—
Total	$ —	$ 127	$ —	$ —	$ 223	$ —

We use derivative financial instruments from time to time in the management of our interest rate exposure on long-term debt and our exposure on foreign currency fluctuations. The fair value of our derivative financial instruments was measured using observable market information (level 2). Our derivative agreements are discussed further in Note 4.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The carrying amounts of cash and cash equivalents, receivables, short-term debt, and accounts payable approximate fair value due to the short-term maturities of these financial instruments.

Long-lived assets, goodwill, and other intangible assets were analyzed for impairment on a nonrecurring basis using fair value measurements with unobservable inputs (level 3).

The aggregate fair values and carrying values of our senior notes follow.

in millions	February 3, 2019		January 28, 2018	
	Fair Value (Level 1)	Carrying Value	Fair Value (Level 1)	Carrying Value
Senior notes	$ 28,348	$ 26,814	$ 26,617	$ 24,485

8. STOCK-BASED COMPENSATION

Omnibus Stock Incentive Plans

The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan (the "2005 Plan") and The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan (the "1997 Plan" and collectively with the 2005 Plan, the "Plans") provide that incentive and nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, deferred shares, and other stock-based awards may be issued to certain of our associates, officers, and non-employee directors. Under the 2005 Plan, the maximum number of shares of our common stock authorized for issuance is 255 million shares, with any award other than a stock option or stock appreciation right reducing the number of shares available for issuance by 2.11 shares. At February 3, 2019, there were 127 million shares available for future grants under the 2005 Plan. No additional equity awards could be issued from the 1997 Plan after the adoption of the 2005 Plan on May 26, 2005.

Stock Options. Under the terms of the Plans, incentive stock options and nonqualified stock options must have an exercise price at or above the fair market value of our stock on the date of the grant. Typically, nonqualified stock options vest at the rate of 25% per year commencing on the first or second anniversary date of the grant and expire on the tenth anniversary date of the grant. Additionally, certain stock options may become non-forfeitable upon the associate reaching age 60, provided the associate has had five years of continuous service. No incentive stock options have been issued under the 2005 Plan.

We estimate the fair value of stock option awards on the date of grant using an option-pricing model. We use the Black-Scholes option pricing model for purposes of valuing stock option awards. Our determination of fair value of stock option awards on the date of grant using the Black-Scholes option pricing model is affected by our stock price as well as assumptions regarding a number of subjective variables.

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The per share weighted average fair value of stock options granted and the assumptions used in determining fair value at the date of grant using the Black-Scholes option-pricing model follow.

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Per share weighted average fair value	$ 32.28	$ 21.85	$ 20.26
Risk-free interest rate	2.7 %	1.9 %	1.4 %
Assumed volatility	21.3 %	19.4 %	20.7 %
Assumed dividend yield	2.3 %	2.4 %	2.1 %
Assumed lives of options	5 years	5 years	5 years

The total intrinsic value of stock options exercised follow.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Total intrinsic value of stock options exercised	138	223	140

A summary of stock option activity by number of shares and weighted average exercise price follows.

shares in thousands	Number of Shares	Weighted Average Exercise Price
Outstanding at January 28, 2018	7,196	$ 82.85
Granted	412	178.67
Exercised	(1,072)	59.54
Forfeited	(156)	130.78
Outstanding at February 3, 2019	6,380	91.78

Shares of common stock issued from stock option exercises are made available from authorized and unissued common stock or treasury stock.

Details regarding outstanding and exercisable stock options at the end of fiscal 2018 follow.

shares in thousands, dollars in millions, except for per share amounts	Number of Shares	Intrinsic Value	Weighted Average Remaining Life	Weighted Average Exercise Price
Outstanding	6,380	$ 591	5 years	$ 91.78
Exercisable	3,910	463	4 years	66.04

At February 3, 2019, there were approximately 6 million stock options vested or expected to ultimately vest.

Restricted Stock and Performance Shares. Restrictions on the restricted stock issued under the Plans generally lapse according to one of the following schedules:

- the restrictions on the restricted stock lapse over various periods up to five years;
- the restrictions on 25% of the restricted stock lapse upon the third and sixth anniversaries of the date of issuance with the remaining 50% of the restricted stock lapsing upon the associate's attainment of age 62; or
- the restrictions on 25% of the restricted stock lapse upon the third and sixth anniversaries of the date of issuance with the remaining 50% of the restricted stock lapsing upon the earlier of the associate's attainment of age 60 or the tenth anniversary of the grant date.

At the grant date of the award, recipients of restricted stock are granted voting rights and generally receive dividends on unvested shares, paid in the form of cash on each dividend payment date. Additionally, certain restricted stock awards may become non-forfeitable upon the associate's attainment of age 60, provided the associate has had five years of continuous service.

We have also granted performance shares under the Plans, the payout of which is dependent on our performance against target average ROIC and operating profit over a three-year performance cycle. Additionally, certain awards may become non-forfeitable upon the associate's attainment of age 60, provided the associate has had five years of

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continuous service and minimum performance targets are achieved. Recipients of performance shares have no voting rights until payout of the awards. Dividend equivalents accrue on the performance shares (as reinvested shares) and are paid upon the payout of the award based upon the actual number of shares earned.

The fair value of the restricted stock and performance shares is based on the closing stock price on the date of grant and is expensed over the period during which the restrictions lapse.

Restricted Stock Units and Deferred Shares. Each restricted stock unit entitles the associate to one share of common stock to be received upon vesting up to five years after the grant date. Additionally, certain awards may become non-forfeitable upon the associate reaching age 60, provided the associate has had five years of continuous service. Recipients of restricted stock units have no voting rights until the vesting of the award. Recipients receive dividend equivalents that accrue on unvested units and are paid out in the form of additional shares of stock on the vesting date. The fair value of the restricted stock units is based on the closing stock price on the date of grant and is expensed over the period during which the units vest.

We grant awards of deferred shares to non-employee directors under the Plans. Each deferred share entitles the non-employee director to one share of common stock to be received following termination of Board service. Recipients of deferred shares have no voting rights and receive dividend equivalents that accrue and are paid out in the form of additional shares of stock upon payout of the underlying shares following termination of service. The fair value of the deferred shares is based on the closing stock price on the date of grant and is expensed immediately upon grant.

Deferred shares granted to non-employee directors follow.

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Deferred shares granted	26,000	27,000	29,000

Stock-Based Compensation Activity. A summary of restricted stock, performance shares, and restricted stock unit activity follows.

shares in thousands	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at January 28, 2018	4,729	$ 123.03
Granted	1,930	167.20
Vested	(2,068)	104.61
Forfeited	(349)	142.58
Nonvested at February 3, 2019	4,242	150.51

Stock-based compensation expense, net of estimated forfeitures follows.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Stock-based compensation expense, net	$ 282	$ 273	$ 267

At February 3, 2019, there was $379 million of unamortized stock-based compensation expense, which is expected to be recognized over a weighted average period of two years.

The total fair value of restricted stock, performance shares, and restricted stock units that vested during the fiscal year follow.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Total fair value vested	$ 367	$ 309	$ 354

Employee Stock Purchase Plans

We maintain two ESPPs (a U.S. and a non-U.S. plan). The plan for U.S. associates is a tax-qualified plan under Section 423 of the Internal Revenue Code. The non-U.S. plan is not a Section 423 plan. At February 3, 2019, there were 19 million shares available under the U.S. plan and 19 million shares available under the non-U.S. plan. The purchase price of shares under the ESPPs is equal to 85% of the stock's fair market value on the last day of the purchase period, which is a six-month period ending on December 31 and June 30 of each year. During fiscal 2018, there were 1 million shares purchased under the ESPPs at an average price of $155.79. Under the outstanding ESPPs at February 3, 2019, employees have contributed $22 million to purchase shares at 85% of the stock's fair market value on the last day of the current purchase period (June 30, 2019).

9. EMPLOYEE BENEFIT PLANS

We maintain active defined contribution retirement plans for our employees (the "Benefit Plans"). All associates satisfying certain service requirements are eligible to participate in the Benefit Plans. We make cash contributions each payroll period up to specified percentages of associates' contributions as approved by our Board of Directors.

We also maintain the Restoration Plan to provide certain associates deferred compensation that they would have received under the Benefit Plans as a matching contribution if not for the maximum compensation limits under the Internal Revenue Code. We fund the Restoration Plan through contributions made to a grantor trust, which are then used to purchase shares of our common stock in the open market.

Our contributions to the Benefit Plans and the Restoration Plan follow.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Contributions to the Benefit Plans and the Restoration Plan	$ 211	$ 202	$ 195

At February 3, 2019, the Benefit Plans and the Restoration Plan held a total of 7 million shares of our common stock in trust for plan participants.

10. WEIGHTED AVERAGE COMMON SHARES

The reconciliation of our basic to diluted weighted average common shares follows.

in millions	Fiscal 2018	Fiscal 2017	Fiscal 2016
Basic weighted average common shares	1,137	1,178	1,229
Effect of potentially dilutive securities	6	6	5
Diluted weighted average common shares	1,143	1,184	1,234
Anti-dilutive securities excluded from diluted weighted average common shares	—	1	1

11. COMMITMENTS AND CONTINGENCIES

At February 3, 2019, we had outstanding letters of credit totaling $421 million, primarily related to certain business transactions, including insurance programs, trade contracts, and construction contracts.

We are involved in litigation arising in the normal course of business. In management's opinion, any such litigation is not expected to have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

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12. QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of our quarterly consolidated results of operations follows.

in millions, except per share data	First Fiscal Quarter	Second Fiscal Quarter	Third Fiscal Quarter	Fourth Fiscal Quarter
Fiscal 2018:				
Net sales	$ 24,947	$ 30,463	$ 26,302	$ 26,491
Gross profit	8,617	10,365	9,151	9,027
Net earnings	2,404	3,506	2,867	2,344
Basic earnings per share	2.09	3.06	2.53	2.10
Diluted earnings per share	2.08	3.05	2.51	2.09
Fiscal 2017:				
Net sales	$ 23,887	$ 28,108	$ 25,026	$ 23,883
Gross profit	8,154	9,461	8,648	8,093
Net earnings	2,014	2,672	2,165	1,779
Basic earnings per share	1.68	2.26	1.85	1.53
Diluted earnings per share	1.67	2.25	1.84	1.52

The fourth fiscal quarter of fiscal 2018 includes 14 weeks. The comparable prior-year period included 13 weeks.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting during the fiscal quarter ended February 3, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) promulgated under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of February 3, 2019 based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of February 3, 2019 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The effectiveness of our internal control over financial reporting as of February 3, 2019 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ CRAIG A. MENEAR	/s/ CAROL B. TOMÉ
Craig A. Menear Chairman, Chief Executive Officer and President	Carol B. Tomé Chief Financial Officer and Executive Vice President – Corporate Services

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Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors
The Home Depot, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited The Home Depot, Inc. and Subsidiaries' internal control over financial reporting as of February 3, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 3, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Consolidated Balance Sheets of The Home Depot, Inc. and Subsidiaries as of February 3, 2019 and January 28, 2018, and the related Consolidated Statements of Earnings, Comprehensive Income, Stockholders' Equity, and Cash Flows for each of the fiscal years in the three-year period ended February 3, 2019, and the related notes (collectively, the "Consolidated Financial Statements"), and our report dated March 28, 2019 expressed an unqualified opinion on those Consolidated Financial Statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this item, other than the information regarding the executive officers set forth below, is incorporated by reference to the sections entitled "Election of Directors," "Corporate Governance," "General," and "Audit Committee Report" in our Proxy Statement for the 2019 Annual Meeting of Shareholders ("Proxy Statement").

Executive officers are appointed by, and serve at the pleasure of, the Board of Directors. Our executive officers are as follows:

ANN-MARIE CAMPBELL, age 53, has been Executive Vice President – U.S. Stores since February 2016. From January 2009 to February 2016, she served as Division President of the Southern Division, and from December 2005 to January 2009, she served as Vice President – Vendor Services. Ms. Campbell began her career with The Home Depot in 1985 as a cashier and has held roles of increasing responsibility since she joined the Company, including vice president roles in the Company's operations, merchandising, and marketing departments. She serves as a director of Potbelly Corporation, a chain of neighborhood sandwich shops.

MATTHEW A. CAREY, age 54, has been Executive Vice President and Chief Information Officer since September 2008. From January 2006 through August 2008, he served as Senior Vice President and Chief Technology Officer at eBay Inc., an online commerce platform. Mr. Carey was previously with Wal-Mart Stores, Inc., a general merchandise retailer, from June 1985 to December 2005. His final position with Wal-Mart was Senior Vice President and Chief Technology Officer.

EDWARD P. DECKER, age 56, has been Executive Vice President – Merchandising since August 2014. From October 2006 through July 2014, he served as Senior Vice President – Retail Finance, Pricing Analytics, and Assortment Planning. Mr. Decker joined The Home Depot in 2000 and held various strategic planning roles, including serving as Vice President – Strategic Business Development from November 2002 to April 2006 and Senior Vice President – Strategic Business and Asset Development from April 2006 to September 2006. Prior to joining the Company, Mr. Decker held various positions in strategic planning, business development, finance, and treasury at Kimberly-Clark Corp. and Scott Paper Co., both of which are consumer products companies.

MARK Q. HOLIFIELD, age 62, has been Executive Vice President – Supply Chain and Product Development since February 2014. From July 2006 through February 2014, he served as Senior Vice President – Supply Chain. Mr. Holifield was previously with Office Depot, Inc., an office products and services company, from 1994 through July 2006, where he served in variety of supply chain positions, including Executive Vice President of Supply Chain Management.

TIMOTHY A. HOURIGAN, age 62, has been Executive Vice President – Human Resources since June 2017. From February 2016 through June 2017, he served as Division President of the Southern Division. Prior to his role as Division President, Mr. Hourigan served in various human resources roles with the Company, including Vice President – Human Resources, U.S. Stores and Operations from September 2013 to February 2016; Vice President – Compensation and Benefits from February 2007 to September 2013; and Vice President – Human Resources from July 2002 to February 2007.

WILLIAM G. LENNIE, age 63, has been Executive Vice President – Outside Sales & Service since July 2015. From March 2011 through January 2016, he served as President of The Home Depot Canada, and he served as Senior Vice President – International Merchandising, Private Brands, and Global Sourcing from March 2009 through March 2011. Mr. Lennie originally joined the Company in 1992 and held roles of increasing responsibility in the Company's merchandising department. In 2006, Mr. Lennie left the Company to be Senior Vice President of Merchandising, Hardlines for Dick's Sporting Goods, Inc., a sporting goods retailer, before re-joining The Home Depot in 2009.

CRAIG A. MENEAR, age 61, has been our Chief Executive Officer and President since November 2014 and our Chairman since February 2015. He previously served as our President, U.S. Retail from February 2014 through October 2014. From April 2007 through February 2014, he served as Executive Vice

President – Merchandising, and from August 2003 through April 2007, he served as Senior Vice President – Merchandising. From 1997 through August 2003, Mr. Menear served in various management and vice president level positions in the Company's merchandising department, including Merchandising Vice President of Hardware, Merchandising Vice President of the Southwest Division, and Divisional Merchandise Manager of the Southwest Division.

TERESA WYNN ROSEBOROUGH, age 60, has been Executive Vice President, General Counsel and Corporate Secretary since November 2011. From April 2006 through November 2011, Ms. Roseborough served in several legal positions with MetLife, Inc., a provider of insurance and other financial services, including Senior Chief Counsel – Compliance & Litigation and most recently as Deputy General Counsel. Prior to joining MetLife, Ms. Roseborough was a partner with the law firm Sutherland Asbill & Brennan LLP from February 1996 through March 2006 and a Deputy Assistant Attorney General in the Office of Legal Counsel of the United States Department of Justice from January 1994 through February 1996. Ms. Roseborough serves as a director of The Hartford Financial Services Group, Inc., an investment and insurance company.

CAROL B. TOMÉ, age 62, has been Chief Financial Officer since May 2001 and Executive Vice President – Corporate Services since January 2007. Prior thereto, Ms. Tomé served as Senior Vice President – Finance and Accounting/Treasurer from April 2000 through May 2001 and as Vice President and Treasurer from 1995 through April 2000. From 1992 until 1995, when she joined the Company, Ms. Tomé was Vice President and Treasurer of Riverwood International Corporation, a provider of paperboard packaging. Ms. Tomé serves as a director of United Parcel Service, Inc., a global package delivery and logistics provider. She also serves as a member of the Advisory Board of certain Fidelity funds.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to the sections entitled "Executive Compensation," "Director Compensation," and "Leadership Development and Compensation Committee Report" in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference to the sections entitled "Beneficial Ownership of Common Stock" and "Executive Compensation – Equity Compensation Plan Information" in our Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference to the section entitled "Corporate Governance" in our Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated by reference to the section entitled "Independent Registered Public Accounting Firm's Fees" in our Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

The following documents are filed as part of this report:

1. Financial Statements

The following financial statements are set forth in Item 8 hereof:

- Report of Independent Registered Public Accounting Firm;
- Consolidated Balance Sheets as of February 3, 2019 and January 28, 2018;
- Consolidated Statements of Earnings for fiscal 2018, fiscal 2017, and fiscal 2016;
- Consolidated Statements of Comprehensive Income for fiscal 2018, fiscal 2017, and fiscal 2016;
- Consolidated Statements of Stockholders' Equity for fiscal 2018, fiscal 2017, and fiscal 2016;
- Consolidated Statements of Cash Flows for fiscal 2018, fiscal 2017, and fiscal 2016; and

- Notes to Consolidated Financial Statements.

2. Financial Statement Schedules

All schedules are omitted as the required information is inapplicable or the information is presented in our consolidated financial statements or related notes.

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3. Exhibits

Exhibits not filed or furnished herewith are incorporated by reference to exhibits previously filed with the SEC, as reflected in the table below. Our Current, Quarterly, and Annual Reports are filed with the SEC under File No. 1-8207. Our Registration Statements have the file numbers noted wherever such statements are identified in the following list of exhibits. We will furnish a copy of any exhibit to shareholders without charge upon written request to Investor Relations, The Home Depot, Inc., 2455 Paces Ferry Road, Atlanta, Georgia 30339, via the internet at http://ir.homedepot.com, or by calling Investor Relations at (770) 384-2871.

Exhibit	Description	Reference
3.1	Amended and Restated Certificate of Incorporation of The Home Depot, Inc.	Form 10-Q for the fiscal quarter ended July 31, 2011, Exhibit 3.1
3.2	By-Laws of The Home Depot, Inc. (Amended and Restated Effective February 28, 2019)	Form 8-K filed on March 4, 2019, Exhibit 3.2
4.1	Indenture, dated as of May 4, 2005, between The Home Depot, Inc. and The Bank of New York Trust Company, N.A., as Trustee	Form S-3 (File No. 333-124699) filed May 6, 2005, Exhibit 4.1
4.2	Indenture, dated as of August 24, 2012 between The Home Depot, Inc. and Deutsche Bank Trust Company Americas, as Trustee	Form S-3 (File No. 333-183621) filed August 29, 2012, Exhibit 4.3
4.3	Form of 5.875% Senior Note due December 16, 2036	Form 8-K filed December 19, 2006, Exhibit 4.3
4.4	Form of 3.95% Senior Note due September 15, 2020	Form 8-K filed September 10, 2010, Exhibit 4.1
4.5	Form of 5.40% Senior Note due September 15, 2040	Form 8-K filed September 10, 2010, Exhibit 4.2
4.6	Form of 4.40% Senior Note due April 1, 2021	Form 8-K filed March 31, 2011, Exhibit 4.1
4.7	Form of 5.95% Senior Note due April 1, 2041	Form 8-K filed March 31, 2011, Exhibit 4.2
4.8	Form of 2.700% Senior Note due April 1, 2023	Form 8-K filed April 5, 2013, Exhibit 4.2
4.9	Form of 4.200% Senior Note due April 1, 2043	Form 8-K filed April 5, 2013, Exhibit 4.3
4.10	Form of 2.250% Senior Note due September 10, 2018	Form 8-K filed September 10, 2013, Exhibit 4.2
4.11	Form of 3.750% Senior Note due February 15, 2024	Form 8-K filed September 10, 2013, Exhibit 4.3
4.12	Form of 4.875% Senior Note due February 15, 2044	Form 8-K filed September 10, 2013, Exhibit 4.4
4.13	Form of 2.00% Senior Note due June 15, 2019	Form 8-K filed June 12, 2014, Exhibit 4.2
4.14	Form of 4.40% Senior Note due March 15, 2045	Form 8-K filed June 12, 2014, Exhibit 4.3
4.15	Form of 2.625% Senior Note due June 1, 2022	Form 8-K filed June 2, 2015, Exhibit 4.2
4.16	Form of 4.250% Senior Note due April 1, 2046	Form 8-K filed June 2, 2015, Exhibit 4.3
4.17	Form of 3.35% Note due September 15, 2025	Form 8-K filed September 15, 2015, Exhibit 4.3
4.18	Form of 2.000% Senior Note due April 1, 2021	Form 8-K filed February 12, 2016, Exhibit 4.2
4.19	Form of 3.000% Senior Note due April 1, 2026	Form 8-K filed February 12, 2016, Exhibit 4.3
4.20	Form of 4.250% Senior Note due April 1, 2046	Form 8-K filed February 12, 2016, Exhibit 4.4

4.21	Form of 2.125% Senior Note due September 15, 2026	Form 8-K filed September 15, 2016, Exhibit 4.2
4.22	Form of 3.500% Senior Note due September 15, 2056	Form 8-K filed September 15, 2016, Exhibit 4.3
4.23	Form of Floating Rate Note due June 5, 2020	Form 8-K filed June 5, 2017, Exhibit 4.2
4.24	Form of 1.800% Senior Note due June 5, 2020	Form 8-K filed June 5, 2017, Exhibit 4.3
4.25	Form of 3.900% Senior Note due June 15, 2047	Form 8-K filed June 5, 2017, Exhibit 4.4
4.26	Form of 2.800% Note due September 14, 2027	Form 8-K filed September 14, 2017, Exhibit 4.2
4.27	Form of Floating Rate Note due March 1, 2022	Form 8-K filed December 6, 2018, Exhibit 4.2

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Exhibit		Description	Reference
4.28		Form of 3.250% Senior Note due March 1, 2022	Form 8-K filed December 6, 2018, Exhibit 4.3
4.29		Form of 3.900% Senior Note due December 6, 2028	Form 8-K filed December 6, 2018, Exhibit 4.4
4.30		Form of 4.500% Senior Note due December 6, 2048	Form 8-K filed December 6, 2018, Exhibit 4.5
10.1	†	The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended August 4, 2002, Exhibit 10.1
10.2	†	Form of Executive Employment Death Benefit Agreement	Form 10-K for the fiscal year ended February 3, 2013, Exhibit 10.2
10.3	†	The Home Depot Deferred Compensation Plan for Officers (As Amended and Restated Effective January 1, 2008)	Form 8-K filed on August 20, 2007, Exhibit 10.1
10.4	†	Amendment No. 1 to The Home Depot Deferred Compensation Plan for Officers (As Amended and Restated Effective January 1, 2008)	Form 10-K for the fiscal year ended January 31, 2010, Exhibit 10.4
10.5	†	The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended May 5, 2013, Exhibit 10.1
10.6	†	Amendment No. 1 to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan and The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan	Form 10-K for the fiscal year ended January 31, 2010, Exhibit 10.6
10.7	†	The Home Depot FutureBuilder Restoration Plan	Form 8-K filed on August 20, 2007, Exhibit 10.2
10.8	†	Amendment No.1 to The Home Depot FutureBuilder Restoration Plan	Form 10-K for the fiscal year ended February 2, 2014, Exhibit 10.8
10.9	†	The Home Depot, Inc. Nonemployee Directors' Deferred Stock Compensation Plan	Form 8-K filed on August 20, 2007, Exhibit 10.3
10.10	†	The Home Depot, Inc. Amended and Restated Management Incentive Plan (Effective November 21, 2013)	Form 10-K for the fiscal year ended February 2, 2014, Exhibit 10.10
10.11	†	The Home Depot, Inc. Amended and Restated Employee Stock Purchase Plan, as amended and restated effective July 1, 2012	Form 10-Q for the fiscal quarter ended April 29, 2012, Exhibit 10.1
10.12	†	Form of Executive Officer Restricted Stock Award Pursuant to The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended October 31, 2004, Exhibit 10.1
10.13	†	Form of Executive Officer Nonqualified Stock Option Award Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 13, 2009, Exhibit 10.4
10.14	†	Form of Deferred Share Award (Nonemployee Director) Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on November 15, 2007, Exhibit 10.1
10.15	†	Form of Equity Award Terms and Conditions Agreement Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 2, 2011, Exhibit 10.1
10.16	†	Form of Executive Officer Equity Award Terms and Conditions Agreement Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 6, 2013, Exhibit 10.1
10.17	†	Form of Executive Officer Equity Award Agreement (Nonqualified Stock Option) Pursuant to The Home Depot, Inc. Amended	Form 8-K filed on March 8, 2016, Exhibit 10.1

		and Restated 2005 Omnibus Stock Incentive Plan	
10.18	†	Form of Executive Officer Equity Award Agreement (Performance Based Restricted Stock) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 8, 2016, Exhibit 10.2

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Exhibit		Description	Reference
10.19	†	Form of Executive Officer Equity Award Agreement (Performance Shares) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 8, 2016, Exhibit 10.3
10.20	†	Form of Deferred Share Award (Nonemployee Director) Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 10-K for the fiscal year ended January 29, 2017, Exhibit 10.21
10.21	†	Form of Executive Officer Equity Award Agreement (Performance Shares) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on February 28, 2018, Exhibit 10.1
10.22	†	Form of Executive Officer Equity Award Agreement (Performance Based Restricted Stock) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on February 28, 2018, Exhibit 10.2
10.23	†	Form of Executive Officer Equity Award Agreement (Nonqualified Stock Option) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on February 28, 2018, Exhibit 10.3
10.24	†	Form of Executive Officer Equity Award Agreement (Performance Shares) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 4, 2019, Exhibit 10.1
10.25	†	Form of Executive Officer Equity Award Agreement (Performance-Based Restricted Stock) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 4, 2019, Exhibit 10.2
10.26	†	Form of Executive Officer Equity Award Agreement (Nonqualified Stock Option) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 4, 2019, Exhibit 10.3
10.27	†	Employment Arrangement between Craig A. Menear and The Home Depot, Inc., dated October 16, 2014	Form 10-Q for the fiscal quarter ended November 2, 2014, Exhibit 10.2
10.28	†	Employment Arrangement between Carol B. Tomé and The Home Depot, Inc., dated January 20, 2007	Form 8-K/A filed on January 24, 2007, Exhibit 10.2
10.29	†	Code Section 409A Amendment to Employment Arrangement between Carol B. Tomé and The Home Depot, Inc., dated December 21, 2012	Form 10-K for the fiscal year ended February 3, 2013, Exhibit 10.22
10.30	†	Employment Arrangement between Matthew A. Carey and The Home Depot, Inc., dated August 22, 2008, as amended on September 3, 2008	Form 10-K for the fiscal year ended January 30, 2011, Exhibit 10.36
10.31	†	Employment Arrangement between Mark Q. Holifield and The Home Depot, Inc., dated February 27, 2014	Form 10-K for the fiscal year ended February 1, 2015, Exhibit 10.30
10.32	†	Employment Arrangement between Edward P. Decker and The Home Depot, Inc., dated July 29, 2014	Form 10-K for the fiscal year ended January 28, 2018, Exhibit 10.31

21	*	List of Subsidiaries of the Company
23	*	Consent of Independent Registered Public Accounting Firm
31.1	*	Certification of Chief Executive Officer and President pursuant to Rule 13a-14(a)
31.2	*	Certification of Chief Financial Officer and Executive Vice President - Corporate Services pursuant to Rule 13a-14(a)

Exhibit		Description	Reference
32.1	‡	Certification of Chief Executive Officer and President furnished pursuant 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 Section 906 of the Sarbanes-Oxley Act of 2002	
101.INS	*	XBRL Instance Document	
101.SCH	*	XBRL Taxonomy Extension Schema Document	
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document	

† *Management contract or compensatory plan or arrangement*

* *Filed herewith*

‡ *Furnished (and not filed) herewith pursuant to Item 601(b)(32)(ii) of the SEC's Regulation S-K*

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Date: March 28, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of March 28, 2019.

Signature	Title
/s/ CRAIG A. MENEAR Craig A. Menear	Chairman, Chief Executive Officer and President (Principal Executive Officer)
/s/ CAROL B. TOMÉ Carol B. Tomé	Chief Financial Officer and Executive Vice President – Corporate Services (Principal Financial Officer and Principal Accounting Officer)
/s/ GERARD J. ARPEY Gerard J. Arpey	Director
/s/ ARI BOUSBIB Ari Bousbib	Director
/s/ JEFFERY H. BOYD Jeffery H. Boyd	Director
/s/ GREGORY D. BRENNEMAN Gregory D. Brenneman	Director
/s/ J. FRANK BROWN J. Frank Brown	Director
/s/ ALBERT P. CAREY Albert P. Carey	Director
/s/ ARMANDO CODINA Armando Codina	Director
/s/ HELENA B. FOULKES Helena B. Foulkes	Director
/s/ LINDA R. GOODEN Linda R. Gooden	Director
/s/ WAYNE M. HEWETT Wayne M. Hewett	Director

/s/ MANUEL KADRE	Director
Manuel Kadre	

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/s/ STEPHANIE C. LINNARTZ Stephanie C. Linnartz	Director
/s/ MARK VADON Mark Vadon	Director

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THE HOME DEPOT, INC.
SELECTED FINANCIAL DATA

amounts in millions, except per share data or where noted	Fiscal 2018	Fiscal 2017	Fiscal 2016	Fiscal 2015	Fiscal 2014
STATEMENT OF EARNINGS DATA					
Net sales	$ 108,203	$ 100,904	$ 94,595	$ 88,519	$ 83,176
Net sales increase (%)	7.2	6.7	6.9	6.4	5.5
Earnings before provision for income taxes ($)	14,556	13,698	12,491	11,021	9,976
Net earnings ($)	11,121	8,630	7,957	7,009	6,345
Net earnings increase (%)	28.9	8.5	13.5	10.5	17.8
Diluted earnings per share ($)	9.73	7.29	6.45	5.46	4.71
Diluted earnings per share increase (%)	33.5	13.0	18.1	15.9	25.3
Diluted weighted average number of common shares	1,143	1,184	1,234	1,283	1,346
Gross profit – % of sales	34.3	34.0	34.2	34.2	34.1
Total operating expenses – % of sales	20.0	19.5	20.0	20.9	21.5
Net earnings – % of sales	10.3	8.6	8.4	7.9	7.6
BALANCE SHEET DATA AND FINANCIAL RATIOS					
Total assets	$ 44,003	$ 44,529	$ 42,966	$ 41,973	$ 39,449
Working capital ($)	1,813	2,739	3,591	3,960	3,589
Merchandise inventories ($)	13,925	12,748	12,549	11,809	11,079
Net property and equipment ($) (1)	22,375	22,075	21,914	22,191	22,720
Long-term debt, excluding current installments ($)	26,807	24,267	22,349	20,789	16,786
Stockholders' (deficit) equity ($)	(1,878)	1,454	4,333	6,316	9,322
Total debt-to-equity (%)	(1,550.0)	1,858.9	544.7	335.9	183.6
Inventory turnover	5.1x	5.1x	4.9x	4.9x	4.7x
STATEMENT OF CASH FLOWS DATA					
Depreciation and amortization	$ 2,152	$ 2,062	$ 1,973	$ 1,863	$ 1,786
Capital expenditures ($)	2,442	1,897	1,621	1,503	1,442
OTHER KEY METRICS					
Return on invested capital (%)	44.8	34.2	31.4	28.1	25.0
Cash dividends per share ($)	4.12	3.56	2.76	2.36	1.88
Number of stores	2,287	2,284	2,278	2,274	2,269
Square footage at fiscal year-end	238	237	237	237	236
Comparable sales increase (%) (2)	5.2	6.8	5.6	5.6	5.3
Sales per square foot ($) (3)	446.86	417.02	390.78	370.55	352.22
Customer transactions (3)	1,621	1,579	1,544	1,501	1,442
Average ticket ($) (3)	65.74	63.06	60.35	58.77	57.87
Number of associates at fiscal year-end (in thousands)	413	413	406	385	371

Note: Fiscal 2018 includes 53 weeks. All other fiscal periods disclosed include 52 weeks. This information should be read in conjunction with MD&A and our consolidated financial statements and related notes.

(1) Includes capital leases.

(2) The calculations for fiscal 2017, fiscal 2016, fiscal 2015, and fiscal 2014 do not include results for Interline, which was acquired in fiscal 2015.

(3) These amounts do not include the results for Interline, which was acquired in fiscal 2015.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 28, 2018

OR

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

Commission File Number 1-8207

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THE HOME DEPOT, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	**95-3261426** (I.R.S. Employer Identification No.)
2455 PACES FERRY ROAD, ATLANTA, GEORGIA 30339 (Address of principal executive offices) (Zip Code)	Registrant's Telephone Number, Including Area Code: **(770) 433-8211**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $0.05 Par Value Per Share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☒ 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 during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐	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 ☒

The aggregate market value of the common stock of the Registrant held by non-affiliates of the Registrant on July 30, 2017 was $176.5 billion.

The number of shares outstanding of the Registrant’s common stock as of March 2, 2018 was 1,157,269,522 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s proxy statement for the 2018 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K to the extent described herein.

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COMMONLY USED OR DEFINED TERMS

Term	Definition
ASC	Accounting Standards Codification
ASR	Accelerated share repurchase
ASU	Accounting Standards Update
BODFS	Buy Online, Deliver From Store
BOPIS	Buy Online, Pick-up In Store
BORIS	Buy Online, Return In Store
BOSS	Buy Online, Ship to Store
Compact Power	Compact Power Equipment, Inc.
Comparable sales	As defined in the Results of Operations - Sales section of MD&A
DIFM	Do-It-For-Me
DIY	Do-It-Yourself
EH&S	Environmental, Health and Safety
EPA	U.S. Environmental Protection Agency
ESPP	Employee Stock Purchase Plan
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
fiscal 2012	Fiscal year ended February 3, 2013 (includes 53 weeks)
fiscal 2013	Fiscal year ended February 2, 2014 (includes 52 weeks)
fiscal 2014	Fiscal year ended February 1, 2015 (includes 52 weeks)
fiscal 2015	Fiscal year ended January 31, 2016 (includes 52 weeks)
fiscal 2016	Fiscal year ended January 29, 2017 (includes 52 weeks)
fiscal 2017	Fiscal year ended January 28, 2018 (includes 52 weeks)
fiscal 2018	Fiscal year ending February 3, 2019 (includes 53 weeks)
GAAP	U.S. generally accepted accounting principles
GRI	Global Reporting Initiative
HD Supply	HD Supply Holdings, Inc.
Interline	Interline Brands, Inc.
IRS	Internal Revenue Service
LIBOR	London interbank offered rate
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MRO	Maintenance, repair, and operations
NOPAT	Net operating profit after tax
NYSE	New York Stock Exchange
PLCC	Private label credit card
Pro	Professional customer
Restoration Plan	Home Depot FutureBuilder Restoration Plan
ROIC	Return on invested capital
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
SER	Social and Environmental Responsibility
SG&A	Selling, general, and administrative
Tax Act	Tax Cuts and Jobs Act of 2017

CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements contained herein, as well as in other filings we make with the SEC and other written and oral information we release, 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 sales; effects of competition; implementation of store, interconnected retail, supply chain and technology initiatives; issues related to the payment methods we accept; 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; management of relationships with our suppliers and vendors; 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 impact and expected outcome of investigations, inquiries, claims, and litigation; the effect of accounting charges; the effect of adopting certain accounting standards; the impact of the Tax Act; 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, dependent on actions of third parties, or 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 Item 1A, "Risk Factors," and elsewhere in this report and also as may be described from time to time in our future reports we file with the SEC.

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 SEC.

PART I

Item 1. Business.

Introduction

The Home Depot, Inc. is the world's largest home improvement retailer based on net sales for fiscal 2017. We offer our customers a wide assortment of building materials, home improvement products, lawn and garden products, and décor products and provide a number of services, including home improvement installation services and tool and equipment rental. As of the end of fiscal 2017, we had 2,284 The Home Depot stores located throughout the U.S., including the Commonwealth of Puerto Rico and the territories of the U.S. Virgin Islands and Guam, Canada, and Mexico. The Home Depot stores average approximately 104,000 square feet of enclosed space, with approximately 24,000 additional square feet of outside garden area. We also maintain a network of distribution and fulfillment centers, as well as a number of e-commerce websites. When we refer to "The Home Depot," the "Company," "we," "us" or "our" in this report, we are referring to The Home Depot, Inc. and its consolidated subsidiaries.

The Home Depot, Inc. is a Delaware corporation that was incorporated in 1978. Our Store Support Center (corporate office) is located at 2455 Paces Ferry Road, Atlanta, Georgia 30339. Our telephone number is (770) 433-8211.

Our Business

Our Strategy

Our two primary objectives are growing market share with our customers and delivering shareholder value. We have historically been guided by three principles to drive growth: delivering an exceptional customer experience, leading in product authority, and maintaining a disciplined approach to capital allocation. These principles reflect how we fundamentally run our business. As the retail landscape continues to rapidly evolve, we must become more agile in responding to the changing competitive landscape and customer preferences. Our customers expect to be able to buy how, when and where they want. We believe that providing a seamless and frictionless shopping experience across multiple channels, featuring curated and innovative product choices, personalized for the individual shopper's need, which are then delivered in a fast and cost-efficient manner, will be a key enabler for our future success. This is our vision for One Home Depot. We have been focused on providing this interconnected retail experience to drive value for our customers, our associates, our suppliers and our shareholders. With that in mind, we have refined our strategic principles into the following five key strategies designed to drive growth in our business:

- **Connect associates to customer needs**
- **Interconnected experience: stores to online, and online to stores**
- **Connect products and services to customer needs**
- **Connect product to shelf, site and customer**
- **Innovate our business model and value chain**

Taken together, these strategies will help us to create the One Home Depot experience that our customers demand. Below are some of the ways we have been investing in that experience during fiscal 2017.

Connect Associates to Customer Needs

We serve two primary customer groups and have different approaches to meet their needs:

- *DIY Customers.* These customers are typically home owners who purchase products and complete their own projects and installations. Our associates assist these customers both in our stores and through online resources and other media designed to provide product and project knowledge. We also offer a variety of clinics and workshops both to share this knowledge and to build an emotional connection with our DIY customers.

- *Professional Customers (or "Pros")*. These customers are primarily professional renovators/ remodelers, general contractors, handymen, property managers, building service contractors and specialty tradesmen, such as installers. We recognize the great value our Pro customers provide to their clients, and we strive to make the Pro’s job easier. For example, we offer our Pros a wide range of special programs such as delivery and will-call services, dedicated sales and service staff, enhanced credit programs, designated parking spaces close to store entrances and bulk pricing programs for both online and in-store purchases. In addition, we maintain a loyalty program, Pro Xtra, that provides our Pros with discounts on useful business services, exclusive product offers, and a purchase tracking tool to enable receipt lookup online and job tracking of purchases across all forms of payment.

We also serve Pros in the MRO market where our customers are primarily institutions (such as educational and healthcare institutions), hospitality businesses, and national, multi-family apartment complexes. Through our entry into this market with our acquisition of Interline in fiscal 2015, we gained additional competencies relevant to our large Pro customers, including outside sales and account management, expanded product assortment, and last mile delivery capabilities. During fiscal 2017, we continued our integration efforts, rolling out Pro MRO in all U.S. stores, giving customers in our stores access to Interline's assortment. Similarly, we launched our Pro Purchase program, which gives Interline customers the ability to shop our stores using their house accounts.

Our Pros have differing needs depending on the type of work they perform. Our goal is to develop a comprehensive set of capabilities for our Pros to provide solutions across every purchase opportunity, such as supplying both recurring MRO needs and renovation products and services to property managers or providing inventory management solutions for specialty tradesmen's replenishment needs. In fiscal 2017, we enhanced our service offering to our Pros through our acquisition of Compact Power, a national provider of equipment rental and maintenance services. We believe that by bringing our best resources to bear for each individual customer, we can provide a differentiated customer experience and enhanced value proposition for our Pro customers.

Intersecting our DIY customers and our Pros are our DIFM customers. These customers are typically home owners who purchase materials and hire Pros to complete the project or installation. Our stores offer a variety of installation services available to DIFM customers who purchase products and installation of those products from us in our stores, online or in their homes through in-home consultations. Our installation programs include many categories, such as flooring, cabinets, countertops, water heaters and sheds. In addition, we provide third-party professional installation in a number of categories sold through our in-home sales programs, such as roofing, siding, windows, cabinet refacing, furnaces and central air systems. We believe that changing demographics are increasing the demand for our installation services, particularly for our "baby boomer" customers who may have historically been DIY customers but who are now looking for someone to complete a project for them. We also believe our focus on serving the Pros who perform services for our DIFM customers will help us drive higher product sales.

We help our customers finance their projects by offering private label credit card, or PLCC products through third-party credit providers. Our private label credit program includes other benefits, such as a 365-day return policy and, for our Pros, commercial fuel rewards and extended payment terms. In fiscal 2017, our customers opened approximately 4.4 million new The Home Depot private label credit accounts, and at the end of fiscal 2017 the total number of The Home Depot active account holders was approximately 15 million. PLCC sales accounted for approximately 23% of net sales in fiscal 2017.

We strive to provide an outstanding customer experience by putting customers first and taking care of our associates. Our customer experience begins with excellent customer service, and our associates are key to delivering on that experience. Our goal is to remove complexity and inefficient processes from the stores to allow our associates to focus on our customers. In fiscal 2017, we continued to invest in freight handling capabilities as part of an end-to-end initiative to optimize how product flows from suppliers to our shelves. Among other benefits, this initiative improves our on-shelf availability while decreasing the amount of time a store associate spends locating product on the receiving dock or in overhead storage. In addition, we are implementing a new order management system called "Order Up" to consolidate certain of our existing legacy systems into a simple and intuitive user interface. These efforts will allow our associates to devote more time to the customer and make working at The Home Depot a better experience.

At the end of fiscal 2017, we employed approximately 413,000 associates, of whom approximately 28,000 were salaried, with the remainder compensated on an hourly or temporary basis. To attract and retain qualified personnel, we seek to maintain competitive salary and wage levels in each market we serve. We also have a number of programs to recognize stores and individual associates for exceptional customer service. In fiscal 2017, we announced a one-time bonus to our U.S. hourly associates in light of the benefit we expect to receive from the Tax Cuts and Jobs Act of 2017. This bonus was in addition to our semi-annual Success Sharing bonus program for our non-management associates. We measure associate satisfaction regularly, and we believe that our employee relations are very good.

Interconnected Experience: Stores to Online, and Online to Stores

Our customers are shopping and interacting with us differently today than they did several years ago. As a result, we have taken a number of steps to provide our customers with a seamless and frictionless shopping experience across our stores, online, on the job site, and in their homes.

Our stores are the hub of our business, and we are investing to improve the convenience and speed of the customer shopping experience in our stores. For several years, our associates have used FIRST phones, our web-enabled handheld devices, to help expedite the online order checkout process, locate products in the aisles and online, and check inventory on hand. In fiscal 2017, we empowered our customers with additional self-help tools. For example, we invested in a better digital navigation experience through store-specific maps, which allow customers to pinpoint the exact location of an item on their mobile devices.

We have also undertaken a number of store pilots in response to customer feedback around navigation and checkout. These pilots include new, more intuitive signage, better lighting, and a redesign of the front end of our store. As part of these store pilots, we added self-service lockers at the front entrance to offer convenient pick up of online orders. We plan to roll out these store pilots more broadly to our U.S. stores over the next several years.

We continued to make investments in our website and mobile apps. Enhancements to these digital properties are critical for our increasingly interconnected customers who research products online and then go into one of our stores to view the products in person or talk to an associate before making their purchase. While in the store, customers may also go online to access ratings and reviews, compare prices, view our extended assortment and purchase products. During fiscal 2017, we implemented a new e-commerce platform, enhanced our search and mobile functionality, increased checkout speed, and expanded chat functionality with our online contact centers. We have also begun to focus on voice-enabled commerce to further remove friction for our customers in-store and online.

We do not view the customer experience as a specific transaction; rather, it encompasses an entire process from inspiration and know-how, to purchase and fulfillment, to post-purchase care and support. Further, we believe that by connecting our stores to online and online to our stores, we drive sales not just in-store but also online. In fiscal 2017, we saw increased traffic to our online properties and improved online sales conversion rates. Sales from our online channels increased over 21% during fiscal 2017. We will continue to leverage our physical and digital assets in a seamless and frictionless way to enhance the end-to-end customer experience.

Connect Products and Services to Customer Needs

We strive to be the number one retailer in product authority in home improvement by delivering product innovation, assortment and value and by offering a range of home improvement services. In fiscal 2017, we continued to introduce a wide range of innovative new products to our DIY and Pro customers, while remaining focused on offering everyday values in our stores and online. We also made two strategic acquisitions to further enhance our offerings to our customers.

A typical The Home Depot store stocks approximately 30,000 to 40,000 products during the year, including both national brand name and proprietary items. To enhance our merchandising capabilities, we continued to make improvements to our information technology tools in fiscal 2017 to better understand our customers, provide more localized assortments to fit customer demand, and optimize space to dedicate the right square footage to the right products in the right location.

Our online product offerings complement our stores by serving as an extended aisle, and we offer a significantly broader product assortment through our websites, including homedepot.com and blinds.com. In fiscal 2017, we expanded our offering of online décor categories though our acquisition of The Company Store, an online retailer of textiles and décor products. We also routinely use our merchandising tools to refine our online assortment to balance the extended choice with a more curated offering.

In fiscal 2017, we introduced a number of innovative and distinctive products to our customers at attractive values. Examples of these new products include EGO® 56V cordless self-propelled mowers; PPG® Timeless™ paint; Samsung® Activewash™ high-efficiency washers; and Leviton® smart lighting controls.

During fiscal 2017, we continued to offer value to our customers through a wide range of our proprietary and exclusive brands. Highlights of these offerings include Husky® hand tools, tool storage and work benches, water resistant gloves, dual beam flashlights, diamond tip screwdrivers, 15-in-1 screwdriver/nut drivers, and 3/8 inch drive digital torque wrenches; Hampton Bay® lighting, ceiling fans and kitchen cabinets; Glacier Bay® bath fixtures and toilets, featuring a SuperClean™ toilet; LifeProof® flooring including carpet, carpet with PetProof® technology, laminate and vinyl flooring; EcoSmart® lighting, featuring all-glass LED light bulbs; Vigoro® lawn care products; and RIDGID® and Ryobi® power tools, featuring Ryobi® 40V cordless push mowers. We will continue to assess our merchandising departments and product lines for opportunities to expand the assortment of products offered within The Home Depot's portfolio of proprietary and exclusive brands.

We also offer a number of services for our customers. As noted above under "Our Customers," we provide a number of special programs for our Pro customers to meet their particular needs, and for our DIY and DIFM customers, we provide a number of installation services. In fiscal 2017, we enhanced our tool rental offering through our acquisition of Compact Power. Currently, we offer tool and equipment rentals at over 1,000 locations across the U.S. and Canada, providing value and convenience for both our Pro and DIY customers.

Connect Product to Shelf, Site and Customer

We continue to drive productivity and efficiency by building best-in-class competitive advantages in our information technology and supply chain. These efforts are designed to ensure product availability for our customers while managing our costs, which results in higher returns for our shareholders. Given the changing needs of our customers, our goal is to create the fastest and most efficient delivery capabilities in home improvement. During fiscal 2017, we continued to lay the groundwork to meet this goal.

We centrally forecast and replenish over 97% of our products through sophisticated inventory management systems and a network of over 200 distribution centers. This network includes multiple distribution center platforms in the U.S., Canada and Mexico tailored to meet the needs of our stores and customers based on the types of products, location, transportation and delivery requirements. These platforms primarily include rapid deployment centers, stocking distribution centers, bulk distribution centers, and direct fulfillment centers.

In addition to our distribution centers, we leverage our almost 2,000 U.S. stores as a network of convenient customer pick-up, return and delivery fulfillment locations. For customers who shop online and wish to pick-up or return merchandise at, or have merchandise delivered from, our U.S. stores, we have fully implemented our four interconnected retail programs, BOPIS, BOSS, BORIS and BODFS, which we believe provide us with a competitive advantage. For example, as of the end of fiscal 2017, over 45% of our U.S. online orders were picked up in the store. Efficient delivery is also key. We have developed specialized capabilities for delivering building materials, which is particularly important to our Pro customers. During fiscal 2017, we implemented new and improved delivery capabilities from our stores, including two- and four-hour delivery windows, and we piloted van and car options for faster delivery on small orders in certain markets.

A key component of this strategy is enabled through our technology portfolio, which consists of a network of systems that help us centrally manage customer orders and optimize where, when and how we fulfill them in order to maximize speed, efficiency, and the customer's experience. During fiscal 2017, we continued to improve COM, our customer order management platform, and we completed the rollout of our delivery management system, which substantially improves our ability to sell and execute deliveries from our stores.

We recognize that our customers' expectations are changing rapidly and that our supply chain needs to be responsive to their expectations for how, when and where they choose to receive our products and services. We will continue to improve the productivity and connectivity across our supply chain platforms to achieve the fastest, most efficient delivery capabilities in home improvement. We refer to this process, which encompasses a multi-year effort, as One Home Depot Supply Chain.

Competition. Our industry is highly competitive and rapidly evolving. As a result, we face competition for our products and services from a variety of retailers, suppliers, and service providers, ranging from traditional brick-and-mortar, to multichannel, to exclusively online. In each of the markets we serve, there are a number of other home improvement retailers; electrical, plumbing and building materials supply houses; and lumber yards. With respect to some products and services, we also compete with specialty design stores, showrooms, discount stores, local, regional and national hardware stores, paint stores, mail order firms, warehouse clubs, independent building supply stores, MRO companies, home décor retailers, and other retailers, as well as with providers of home improvement services and tool and equipment rental.

We compete, both in-store and online, primarily based on customer experience, price, quality, availability, assortment, and delivery options. With respect to our stores, we also compete based on store location and appearance as well as presentation of merchandise. Our customers routinely use computers, tablets, smartphones and other mobile devices to shop online, read product reviews, and compare prices, products, and delivery options, regardless of whether they shop in-store or online. Further, online and multichannel retailers are increasingly focusing on delivery services, with customers seeking faster, guaranteed delivery times and low-price or free shipping. Our ability to be competitive on delivery times and delivery costs depends on many factors, including the success of our investments to build One Home Depot Supply Chain.

Innovate Our Business Model and Value Chain

In the changing retail environment, we must increase our investments to position our Company for the future. Our customers view us as One Home Depot, and expect us to function in an interconnected, seamless manner. To fully realize the One Home Depot experience, we will continue to connect the various aspects of our business; leverage our scale; and invest in our physical locations, our digital properties, our associates, product and innovation, our Pro and DIY customers, our services business, and our supply chain. Underlying all of these investments is our continued investment in information technology, which provides the backbone of the One Home Depot experience.

We continue to focus on driving productivity throughout the business. This process includes lowering our costs and reinvesting in the business to drive higher sales, creating what we refer to as a virtuous cycle. Through technology development, we drive productivity and speed. By focusing on the elimination of waste across the value chain, improved processes, and enabling those processes through simplified systems, we support a cycle of productivity. This virtuous cycle has allowed us to improve the customer experience, increase our competitiveness in the market, and deliver on shareholder value.

Our strategy to create the One Home Depot experience is driven by our desire to create value for all stakeholders, including our customers, our associates, our supplier partners, the communities we serve, and our shareholders. We are accelerating our investments in the business within our disciplined approach to capital allocation. Our first use of cash has been and will continue to be investing in our business, with use of the remainder guided by our shareholder return principles:

- *Dividend Principle.* We target a dividend payout of approximately 55% of prior year earnings, with the goal of increasing our dividend every year.

- *Return on Invested Capital Principle.* Our goal is to maintain a high return on invested capital, benchmarking all uses of excess liquidity against the value created for our shareholders through share repurchases.

- *Share Repurchase Principle.* After meeting the needs of the business, we use excess cash to repurchase shares as long as it is value creating.

In fiscal 2017, we drove higher returns on invested capital, which allowed us to return value to shareholders through $8.0 billion in share repurchases and $4.2 billion in cash dividends, as discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Other Information

Sustainability Efforts

The Home Depot is committed to sustainable business practices – from the products that we offer to our customers, to the environmental impact of our operations, to our sourcing activities, to our involvement within the communities in which we do business. We believe these efforts continue to be successful in creating value for our customers, shareholders, and communities.

Environmentally Preferred Products and Programs. We offer a growing selection of environmentally preferred products, which supports sustainability and helps our customers save energy, water and money. Through our Eco Options® Program introduced in 2007, we have helped our customers more easily identify products that meet specifications for energy efficiency, water conservation, healthy home, clean air and sustainable forestry. As of the end of fiscal 2017, our Eco Options® Program included over 20,000 products. Through this program, we sell ENERGY STAR® certified appliances, LED light bulbs, tankless water heaters, and other products that enable our customers to save on their utility bills. We estimate that in fiscal 2017 we helped customers save over $1 billion in electricity costs through sales of ENERGY

STAR® certified products. We also estimate our customers saved over 79 billion gallons of water resulting in over $700 million in water bill savings in fiscal 2017 through the sales of our WaterSense®-labeled bath faucets, showerheads, aerators, toilets, and irrigation controllers.

In 2017, we announced new customer energy, greenhouse gas emissions, and water goals, anchored by our sale of ENERGY STAR® and WaterSense® products. We are committed to providing innovative products that, through proper use, will help to reduce North American customers' electricity costs by more than $2.8 billion; greenhouse gas emissions by 20 million metric tons; and water consumption by 250 billion gallons by 2020. Our 2017 Responsibility Report, available on our website at https://corporate.homedepot.com/responsibility, describes many of our other environmentally preferred products that promote energy efficiency, water conservation, clean air, and a healthy home. In 2017, we also updated our wood purchasing policy to require FSC certification for wood products from the Amazon or Congo basins.

We continue to offer store recycling programs in the U.S., such as an in-store compact fluorescent light, or CFL, bulb recycling program launched in 2008. This service is offered to customers free of charge and is available in all U.S. stores. We also maintain an in-store rechargeable battery recycling program. Launched in 2001 and currently done in partnership with Call2Recycle, this program is also available to customers free of charge in all U.S. stores. Through our recycling programs, in fiscal 2017 we helped recycle over 980,000 pounds of CFL bulbs and over 1.1 million pounds of rechargeable batteries. In fiscal 2017, we also recycled over 200,000 lead acid batteries collected from our customers under our lead acid battery exchange program, as well as over 230,000 tons of cardboard through a nationwide cardboard recycling program across our U.S. operations. We believe our environmentally-preferred product selection and our recycling efforts drive sales, which in turn benefits our shareholders, in addition to our customers, the communities in which we work and live, and the environment.

Commitment to Sustainability and Environmentally Responsible Operations. The Home Depot also focuses on sustainable operations and is committed to conducting business in an environmentally responsible manner. This commitment impacts all areas of our operations, including energy usage, supply chain and packaging, and store construction and maintenance. In 2015, we announced two major sustainability commitments for 2020. Our first goal is to reduce our U.S. stores' energy use by 20% over 2010 levels, and our second goal is to produce and procure, on an annual basis, 135 megawatts of energy for our stores through renewable or alternate energy sources, such as wind, solar and fuel cell technology. As of the end of fiscal 2017, we have 49 stores with solar rooftop power and over 200 fuel cell systems that are either operational or in development, which puts us on track to exceed both of our goals before the end of 2020. We are committed to implementing strict operational standards that establish energy efficient operations in all of our U.S. facilities and continuing to invest in renewable and alternative energy. Additionally, we implemented a rainwater reclamation project in our stores in 2010. As of the end of fiscal 2017, 145 of our stores used reclamation tanks to collect rainwater and condensation from HVAC units and garden center roofs, which is in turn used to water plants in our outside garden centers. Our 2017 Responsibility Report, which uses the Global Reporting Initiative, or GRI, framework for sustainability reporting, provides more information on sustainability efforts in other aspects of our operations.

Awards and Recognition. Our commitment to corporate sustainability has resulted in a number of environmental awards and recognitions. In 2017, we received three significant awards from the EPA. The ENERGY STAR® division named us "Retail Partner of the Year – Sustained Excellence" for our overall excellence in energy efficiency, and we received the WaterSense® Sustained Excellence Award for our overall excellence in water efficiency. We also received the EPA's "SmartWay Excellence Award," which recognizes The Home Depot as an industry leader in freight supply chain environmental performance and energy efficiency. We also participate in the CDP (formerly known as the Carbon Disclosure Project) reporting process. CDP is an independent, international, not-for-profit organization providing a global system for companies and cities to measure, disclose, manage and share environmental information. In 2017, we received a score of A- from CDP, reflecting a high level of action on climate change mitigation, adaptation and transparency. We also were named an industry leader by CDP.

Sourcing and Quality Assurance

We maintain a global sourcing program to obtain high-quality and innovative products directly from manufacturers around the world. During fiscal 2017, in addition to our U.S. sourcing operations, we maintained sourcing offices in Mexico, Canada, China, India, Southeast Asia and Europe. Our suppliers are obligated to ensure that their products comply with applicable international, federal, state and local laws. In addition, we have both quality assurance and engineering resources dedicated to establishing criteria and overseeing compliance with safety, quality and performance standards for our proprietary branded products. We also have a global supplier SER program designed to ensure that suppliers adhere to high standards of social and environmental responsibility.

Safety

We are strongly committed to maintaining a safe shopping and working environment for our customers and associates. Our EH&S function is dedicated to ensuring the health and safety of our customers and associates, with trained associates who evaluate, develop, implement and enforce policies, processes and programs on a Company-wide basis. Our EH&S policies are woven into our everyday operations and are part of The Home Depot culture. Some common program elements include: daily store inspection checklists (by department); routine follow-up audits from our store-based safety team members and regional, district and store operations field teams; equipment enhancements and preventative maintenance programs to promote physical safety; departmental merchandising safety standards; training and education programs for all associates, with varying degrees of training provided based on an associate's role and responsibilities; and awareness, communication and recognition programs designed to drive operational awareness and understanding of EH&S issues.

Intellectual Property

Our business has one of the most recognized brands in North America. As a result, we believe that The Home Depot® trademark has significant value and is an important factor in the marketing of our products, e-commerce, stores and business. We have registered or applied for registration of trademarks, service marks, copyrights and internet domain names, both domestically and internationally, for use in our business, including our expanding proprietary brands such as HDX®, Husky®, Hampton Bay®, Home Decorators Collection®, Glacier Bay® and Vigoro®. We also maintain patent portfolios relating to some of our products and services and seek to patent or otherwise protect innovations we incorporate into our products or business operations.

Seasonality

Our business is subject to seasonal influences. Generally, our highest volume of sales occurs in our second fiscal quarter, and the lowest volume occurs either during our first or fourth fiscal quarter.

Available Information

Our internet website is www.homedepot.com. We make available on the Investor Relations section of our website, free of charge, our Annual Reports to shareholders, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and Forms 3, 4 and 5, and amendments to those reports, as soon as reasonably practicable after filing such documents with, or furnishing such documents to, the SEC.

We include our website addresses throughout this report for reference only. The information contained on our websites is not incorporated by reference into this report.

Other Financial Information

For information on key financial highlights, including historical revenues, profits and total assets, see the "Selected Financial Data" on page F-1 of this report and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." For information on net sales by major merchandising department (and related services) and net sales and long-lived assets outside of the U.S., see Note 2 to the consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data" and incorporated herein by reference.

Item 1A. Risk Factors.

The risks and uncertainties described below could materially and adversely affect our business, financial condition and results of operations and could cause actual results to differ materially from our expectations and projections. You should read these Risk Factors in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and our consolidated financial statements and related notes in Item 8. 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. Those factors could cause results to differ materially from our expectations.

Strong competition could adversely affect prices and demand for our products and services and could decrease our market share.

Our industry is highly competitive and rapidly evolving. As a result, we face competition for our products and services from a variety of retailers, suppliers, and service providers, ranging from traditional brick-and-mortar, to multichannel, to exclusively online. In each of the markets we serve, there are a number of other home improvement retailers; electrical, plumbing and building materials supply houses; and lumber yards. With respect to some products and services, we also compete with specialty design stores, showrooms, discount stores, local, regional and national hardware stores, paint stores, mail order firms, warehouse clubs, independent building supply stores, MRO companies, home décor retailers, and other retailers, as well as with providers of home improvement services and tool and equipment rental.

We compete, both in-store and online, primarily based on customer experience, price, quality, availability, assortment, and delivery options. With respect to our stores, we also compete based on store location and appearance as well as presentation of merchandise. Our customers routinely use computers, tablets, smartphones and other mobile devices to shop online, read product reviews, and compare prices, products, and delivery options, regardless of whether they shop in-store or online. Further, online and multichannel retailers are increasingly focusing on delivery services, with customers seeking faster, guaranteed delivery times and low-price or free shipping. Our ability to be competitive on delivery times and delivery costs depends on many factors, including the success of our investments in One Home Depot Supply Chain, and our failure to successfully manage these factors and offer competitive delivery options could negatively impact the demand for our products and our profit margins.

We use our marketing, advertising and promotional programs to drive customer traffic and compete more effectively, and we must regularly assess and adjust our efforts to address changes in the competitive landscape. Intense competitive pressures from one or more of our competitors, such as through aggressive promotional pricing or liquidation events, or our inability to adapt effectively and quickly to a changing competitive landscape, could affect our prices, our margins, or demand for our products and services. If we are unable to timely and appropriately respond to these competitive pressures, including through the delivery of a superior customer experience or maintenance of effective marketing, advertising or promotional programs, our market share and our financial performance could be adversely affected.

We may not timely identify or effectively respond to consumer needs, expectations or trends, which could adversely affect our relationship with customers, our reputation, the demand for our products and services, and our market share.

The success of our business depends in part on our ability to identify and respond promptly to evolving trends in demographics; consumer preferences, expectations and needs; and unexpected weather conditions or natural disasters, while also managing appropriate inventory levels and maintaining an excellent customer experience. It is difficult to successfully predict the products and services our customers will demand. In addition, each of our primary customer groups has different needs and expectations, many of which evolve as the demographics in a particular customer group change. We also need to offer more localized assortments of our merchandise to appeal to local cultural and demographic tastes within each customer group. If we do not successfully differentiate the shopping experience to meet the individual needs and expectations of – or within – a customer group, we may lose market share with respect to those customers.

Customer expectations about the methods by which they purchase and receive products or services are also becoming more demanding. As noted above, customers routinely use technology and mobile devices to rapidly compare products and prices, determine real-time product availability, and purchase products. Once products are purchased, customers are seeking alternate options for delivery of those products, and they often expect quick, timely, and low-price or free delivery. We must continually anticipate and adapt to these changes in the purchasing process. We have our BOSS, BOPIS, BODFS and direct fulfillment delivery options, but we cannot guarantee that these or future programs will be implemented successfully or that we will be able to meet customer expectations on delivery times, options and costs. Customers are also using social media to provide feedback and information about our Company and products and services in a manner that can be quickly and broadly disseminated. To the extent a customer has a negative experience and shares it over social media, it may impact our brand and reputation.

Further, we have an aging store base that requires maintenance, investment, and space reallocation initiatives to deliver the shopping experience that our customers desire. Our investments in our stores may not deliver the relevant shopping experience our customers expect. We must also maintain a safe store environment for our customers and associates. Failure to maintain our stores, utilize our store space effectively, and offer a safe shopping environment; to provide a compelling online presence; to timely identify or respond to changing consumer preferences, expectations and home improvement needs; to provide quick and low-price or free delivery alternatives; to differentiate the customer experience for our primary customer groups; and to effectively implement an increasingly localized merchandising assortment could adversely affect our relationship with customers, our reputation, the demand for our products and services, and our market share.

Our success depends upon our ability to attract, develop and retain highly qualified associates while also controlling our labor costs.

Our customers expect a high level of customer service and product knowledge from our associates. To meet the needs and expectations of our customers, we must attract, develop and retain a large number of highly qualified associates while at the same time controlling labor costs. Our ability to control labor costs is subject to numerous external factors, including prevailing wage rates and health and other insurance costs, as well as the impact of legislation or regulations governing labor relations, minimum wage, or healthcare benefits. An inability to provide wages and/or benefits that are competitive within the markets in which we operate could adversely affect our ability to retain and attract employees. Conversely, changes in market compensation rates may adversely affect our labor costs. In addition, we compete with other retail businesses for many of our associates in hourly positions, and we invest significant resources in training and motivating them to maintain a high level of job satisfaction. These positions have historically had high turnover rates, which can lead to increased training and retention costs, particularly in a competitive labor market. There is no assurance that we will be able to attract or retain highly qualified associates in the future.

A failure of a key information technology system or process could adversely affect our business.

We rely extensively on information technology systems, some of which are managed or provided by third-party service providers, to analyze, process, store, manage and protect transactions and data. In managing our business, we also rely heavily on the integrity of, security of and consistent access to this data for information such as sales, customer data, merchandise ordering, inventory replenishment and order fulfillment. For these information technology systems and processes to operate effectively, we or our service providers must periodically maintain and update them. Our systems and the third-party systems on which we rely are subject to damage or interruption from a number of causes, including power outages; computer and telecommunications failures; computer viruses; security breaches; cyber-attacks, including the use of ransomware; catastrophic events such as fires, floods, earthquakes, tornadoes, or hurricanes; acts of war or terrorism; and design or usage errors by our associates, contractors or third-party service providers. Although we and our third-party service providers seek to maintain our respective systems effectively and to successfully address the risk of compromise of the integrity, security and consistent operations of these systems, such efforts may not be successful. As a result, we or our service providers could experience errors, interruptions, delays or cessations of service in key portions of our information technology infrastructure, which could significantly disrupt our operations and be costly, time consuming and resource-intensive to remedy.

Disruptions in our customer-facing technology systems could impair our interconnected retail strategy and give rise to negative customer experiences.

Through our information technology developments, we are able to provide an improved overall shopping and interconnected retail experience that empowers our customers to shop and interact with us from computers, tablets, smartphones and other mobile devices. We use our websites and our mobile app both as sales channels for our products and also as methods of providing inspiration, as well as product, project, and other relevant information to our customers to drive both in-store and online sales. We have multiple online communities and knowledge centers that allow us to inform, assist and interact with our customers. Multichannel retailing is continually evolving and expanding, and we must effectively respond to changing customer preferences and new developments. We continually seek to enhance all of our online properties to provide an attractive, user-friendly interface for our customers, as evidenced by our recent re-platform of our homedepot.com website. Disruptions, failures or other performance issues with these customer-facing technology systems could impair the benefits that they provide to our online and in-store business and negatively affect our relationship with our customers.

The implementation of our store, interconnected retail, supply chain and technology initiatives could disrupt our operations in the near term, and these initiatives might not provide the anticipated benefits or might fail.

We recently announced our intent to substantially increase our investments to create the One Home Depot experience, including significant investments over the next five years to build a One Home Depot Supply Chain. These initiatives are designed to streamline our operations to allow our associates to continue to provide high-quality service to our customers, simplify customer interaction, provide our customers with a more interconnected retail experience, and create the fastest, most efficient delivery network for home improvement products. The cost and potential problems and interruptions associated with the implementation of these initiatives, including those associated with managing third-party service providers, employing new web-based tools and services, and addressing impacts on inventory levels, could disrupt or reduce the efficiency of our operations in the near term, lead to product availability issues, and impact profitability. Further, accomplishing these initiatives will require a substantial investment in additional information technology personnel and other specialized personnel. We may face significant competition in the market for these resources and may not be successful in our hiring efforts. Failure to choose the right investments and implement them in the right manner and at the right pace could disrupt our operations. In addition, our store and interconnected retail initiatives, enhanced supply chain, and new or upgraded information technology systems might not provide the anticipated benefits, it might take longer than expected to realize the anticipated benefits, or the initiatives might fail altogether, each of which could adversely impact our competitive position and our financial condition, results of operations, or cash flows.

Disruptions in our supply chain and other factors affecting the distribution of our merchandise could adversely impact our business.

A disruption within our logistics or supply chain network could adversely affect our ability to deliver inventory in a timely manner, which could impair our ability to meet customer demand for products and result in lost sales, increased supply chain costs, or damage to our reputation. Such disruptions may result from damage or destruction to our distribution centers; weather-related events; natural disasters; trade policy changes or restrictions; tariffs or import-related taxes; third-party strikes, lock-outs, work stoppages or slowdowns; shipping capacity constraints; third-party contract disputes; supply or shipping interruptions or costs; military conflicts; acts of terrorism; or other factors beyond our control. Any such disruption could negatively impact our financial performance or financial condition.

If our efforts to maintain the privacy and security of customer, associate, supplier and Company information are not successful, we could incur substantial costs and reputational damage and could become subject to litigation and enforcement actions.

Our business, like that of most retailers, involves the receipt, storage and transmission of customers' personal information, preferences, and payment card information, as well as other confidential information, such as personal information about our associates and our suppliers and confidential Company information. We also work with third-party service providers and vendors that provide technology, systems and services that we use in connection with the receipt, storage and transmission of this information. Our information systems, and those of our third-party service providers and vendors, are vulnerable to an increasing threat of continually evolving data protection and cybersecurity risks. Unauthorized parties may attempt to gain access to these systems or our information through fraud or other means of deceiving our associates, third-party service providers or vendors. Hardware, software or applications we develop or obtain from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. The methods used to obtain unauthorized access, disable or degrade service, or sabotage systems are also constantly changing and evolving and may be difficult to anticipate or detect for long periods of time. We have implemented and regularly review and update systems, processes, and procedures to protect against unauthorized access to or use of data and to prevent data loss. However, the ever-evolving threats mean we and our third-party service providers and vendors must continually evaluate and adapt our respective systems and processes and overall security environment, as well as those of any companies we acquire. There is no guarantee that these measures will be adequate to safeguard against all data security breaches, system compromises or misuses of data. As we experienced in connection with the data breach we discovered in the third quarter of fiscal 2014 (the "Data Breach"), any significant compromise or breach of our data security, whether external or internal, or misuse of customer, associate, supplier or Company data, could result in significant costs, including costs to investigate and remediate, as well as lost sales, fines, lawsuits, and damage to our reputation. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could also result in significant costs.

We are subject to payment-related risks that could increase our operating costs, expose us to fraud or theft, subject us to potential liability, and potentially disrupt our business.

We accept payments using a variety of methods, including cash, checks, credit and debit cards, PayPal, our private label credit cards, an installment loan program, trade credit, and gift cards, and we may offer new payment options over time. Acceptance of these payment options subjects us to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. These requirements may change over time or be reinterpreted, making compliance more difficult or costly. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these companies become unable to provide these services to us, or if their systems are compromised, it could potentially disrupt our business. The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. As a result, our business and operating results could be adversely affected.

Uncertainty regarding the housing market, economic conditions, political climate and other factors beyond our control could adversely affect demand for our products and services, our costs of doing business, and our financial performance.

Our financial performance depends significantly on the stability of the housing, residential construction and home improvement markets, as well as general economic conditions, including changes in gross domestic product. Adverse conditions in or uncertainty about these markets, the economy or the political climate could adversely impact our customers' confidence or financial condition, causing them to determine not to purchase home improvement products and services, causing them to delay purchasing decisions, or impacting their ability to pay for products and services. Other factors beyond our control – including unemployment and foreclosure rates; inventory loss due to theft; interest rate fluctuations; fuel and other energy costs; labor and healthcare costs; the availability of financing; the state of the credit markets, including mortgages, home equity loans and consumer credit; weather; natural disasters; acts of terrorism; and other conditions beyond our control – could further adversely affect demand for our products and services, our costs of doing business, and our financial performance.

If we fail to identify and develop relationships with a sufficient number of qualified suppliers, or if our suppliers experience financial difficulties or other challenges, our ability to timely and efficiently access products that meet our high standards for quality could be adversely affected.

We buy our products from suppliers located throughout the world. Our ability to continue to identify and develop relationships with qualified suppliers who can satisfy our high standards for quality and responsible sourcing, as well as our need to access products in a timely and efficient manner, is a significant challenge. Our ability to access products from our suppliers can be adversely affected by political instability, military conflict, acts of terrorism, the financial instability of suppliers, suppliers' noncompliance with applicable laws, trade restrictions, tariffs, currency exchange rates, any disruptions in our suppliers' logistics or supply chain networks or information technology systems, and other factors beyond our or our suppliers' control.

If we are unable to effectively manage and expand our alliances and relationships with selected suppliers of both brand name and proprietary products, we may be unable to effectively execute our strategy to differentiate ourselves from our competitors.

As part of our focus on product differentiation, we have formed strategic alliances and exclusive relationships with selected suppliers to market products under a variety of well-recognized brand names. We have also developed relationships with selected suppliers to allow us to market proprietary products that are comparable to national brands. Our proprietary products differentiate us from other retailers, generally carry higher margins than national brand products, and represent a growing portion of our business. If we are unable to manage and expand these alliances and relationships or identify alternative sources for comparable brand name and proprietary products, we may not be able to effectively execute product differentiation, which may impact our sales and gross margin results.

Failure to achieve and maintain a high level of product and service quality could damage our image with customers and negatively impact our sales and results of operations.

Product and service quality issues could negatively impact customer confidence in our brands and our Company. If our product and service offerings do not meet applicable safety standards or our customers' expectations regarding safety or quality, we could experience lost sales and increased costs and be exposed to legal, financial and reputational risks, as well as governmental enforcement actions. Actual, potential or perceived product safety concerns could expose us to litigation, as well as government enforcement actions, and result in costly product recalls and other liabilities. We seek but may not be successful in obtaining contractual indemnification and insurance coverage from our vendors. If we do not have adequate contractual indemnification or insurance available, such claims could have a material adverse effect on our business, financial condition and results of operations. Even with adequate insurance and indemnification, our reputation as a provider of high quality products and services, including both national brand names and our proprietary products, could suffer, damaging our reputation and impacting customer loyalty. In addition, we and our customers have expectations around responsible sourcing. All of our vendors and service providers must comply with our SER standards, which cover a variety of expectations across multiple areas of social compliance, including supply chain transparency, sources of supply, and child and forced labor. We have an SER audit process, but we are also dependent on our vendors and service providers to ensure that the products and services we provide comply with our standards.

Our proprietary products subject us to certain increased risks.

As we expand our proprietary product offerings, we may become subject to increased risks due to our greater role in the design, manufacture, marketing and sale of those products. The risks include greater responsibility to administer and comply with applicable regulatory requirements, increased potential product liability and product recall exposure, and increased potential reputational risks related to the responsible sourcing of those products. To effectively execute on our product differentiation strategy, we must also be able to successfully protect our proprietary rights and successfully navigate and avoid claims related to the proprietary rights of third parties. In addition, an increase in sales of our proprietary products may adversely affect sales of our vendors' products, which in turn could adversely affect our relationships with certain of our vendors. Any failure to appropriately address some or all of these risks could damage our reputation and have an adverse effect on our business, results of operations, and financial condition.

If we are unable to manage effectively our installation services business, we could suffer lost sales and be subject to fines, lawsuits and reputational damage, or the loss of our general contractor licenses.

We act as a general contractor to provide installation services to our DIFM customers through professional third-party installers. As such, we are subject to regulatory requirements and risks applicable to general contractors, which include management of licensing, permitting and quality of work performed by our third-party installers. We have established processes and procedures to manage these requirements and ensure customer satisfaction with the services provided by our third-party installers. However, if we fail to manage these processes effectively or to provide proper oversight of these services, we could suffer lost sales, fines, lawsuits, and governmental enforcement actions for violations of regulatory requirements, as well as for property damage or personal injury. In addition, we may suffer damage to our reputation or the loss of our general contractor licenses, which could adversely affect our business.

Our strategic transactions involve risks, which could have an adverse impact on our financial condition and results of operation, and we may not realize the anticipated benefits of these transactions.

We regularly consider and enter into strategic transactions, including mergers, acquisitions, investments, alliances, and other growth and market expansion strategies, with the expectation that these transactions will result in increases in sales, cost savings, synergies and various other benefits. Assessing the viability and realizing the benefits of these transactions is subject to significant uncertainty. In fiscal 2015, we acquired Interline, which we believe has enhanced our ability to serve our Pros. In fiscal 2017, we acquired Compact Power and The Company Store to expand our product and service offerings. With these and any other acquisitions, we need to successfully integrate each target company's products, services, associates and systems into our business operations. Integration can be a complex and time-consuming process, and if the integration is not fully successful or is delayed for a material period of time, we may not achieve the anticipated synergies or benefits of the acquisition. Furthermore, even if the target companies are successfully integrated, the acquisitions may fail to further our business strategy as anticipated, expose us to increased competition or challenges with respect to our products or services, and expose us to additional liabilities. Any impairment of goodwill or other intangible assets acquired in a strategic transaction may reduce our earnings.

Our costs of doing business could increase as a result of changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations.

We are subject to various federal, state and local laws and regulations that govern numerous aspects of our business. In recent years, a number of new laws and regulations have been adopted, and there has been expanded enforcement of certain existing laws and regulations by federal, state and local agencies. These laws and regulations, and related interpretations and enforcement activity, may change as a result of a variety of factors, including political, economic or social events. Changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations governing minimum wage or living wage requirements; other wage, labor or workplace regulations; healthcare; data protection and cybersecurity; the sale of some of our products; transportation; logistics; international trade; supply chain transparency; taxes; unclaimed property; energy costs; or environmental matters, including with respect to our installation services business, could increase our costs of doing business or impact our operations.

In fiscal 2017, Congress enacted the Tax Act, which significantly changes how the U.S. taxes corporations. The Tax Act requires complex computations to be performed that were not previously required under U.S. tax law, significant judgments to be made in interpretation of the provisions of the Tax Act, significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, and other standard-setting bodies could interpret or issue guidance on how provisions of the Tax Act will be applied or otherwise administered that is different from our interpretations. The ultimate impact of the Tax Act on us may differ from our current estimates due to changes in interpretations and assumptions made by us as well as the issuance of any further regulations or guidance that may alter the operation of the U.S. federal income tax code. As we complete our analysis of the Tax Act, we may make adjustments to provisional amounts that we have recorded that may impact our provision for income taxes in the period in which the adjustments are made. Further, uncertainties also exist in terms of how U.S. states and foreign countries within which we operate will react to these U.S. federal income tax changes, which could have additional impacts on our effective tax rate.

If we cannot successfully manage the unique challenges presented by international markets, we may not be successful in our international operations and our sales and profit margins may be negatively impacted.

Our ability to successfully conduct retail operations in, and source products and materials from, international markets is affected by many of the same risks we face in our U.S. operations, as well as unique costs and difficulties of managing international operations. Our international operations, including any expansion in international markets, may be adversely affected by local laws and customs, U.S. laws applicable to foreign operations and other foreign legal and regulatory constraints, as well as political and economic conditions. Risks inherent in international operations also include, among others, potential adverse tax consequences; potential tariffs and other import-related taxes and controls; greater difficulty in enforcing intellectual property rights; risks associated with the Foreign Corrupt Practices Act and local anti-bribery law compliance; and challenges in our ability to identify and gain access to local suppliers. In addition, our operations in international markets create risk due to foreign currency exchange rates and fluctuations in those rates, which may adversely impact our sales and profit margins.

The inflation or deflation of commodity prices could affect our prices, demand for our products, our sales and our profit margins.

Prices of certain commodity products, including lumber and other raw materials, are historically volatile and are subject to fluctuations arising from changes in domestic and international supply and demand, labor costs, competition, market speculation, government regulations and periodic delays in delivery. Rapid and significant changes in commodity prices may affect the demand for our products, our sales and our profit margins.

We may incur property, casualty or other losses not covered by our insurance.

We are predominantly self-insured for a number of different risk categories, such as general liability (including product liability), workers' compensation, employee group medical, automobile claims, and network security and privacy liability, with insurance coverage for certain catastrophic risks. The types and amounts of insurance may vary from time to time based on our decisions with respect to risk retention and regulatory requirements. The occurrence of significant claims, a substantial rise in costs to maintain our insurance, or the failure to maintain adequate insurance coverage could have an adverse impact on our financial condition and results of operations.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results or financial condition.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, such as revenue recognition, asset impairment, impairment of goodwill and other intangible assets, inventories, lease obligations, self-insurance, tax matters and litigation, are complex and involve many subjective assumptions, estimates and judgments. Changes in accounting standards or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported or expected financial performance or financial condition.

We are involved in a number of legal, regulatory and governmental enforcement proceedings, and while we cannot predict the outcomes of those proceedings and other contingencies with certainty, some of these outcomes may adversely affect our operations or increase our costs.

We are involved in a number of legal proceedings and regulatory matters, including government inquiries and investigations, and consumer, employment, tort and other litigation that arise from time to time in the ordinary course of business. Litigation is inherently unpredictable, and the outcome of some of these proceedings and other contingencies could require us to take or refrain from taking actions which could adversely affect our operations or could result in excessive adverse verdicts. Additionally, involvement in these lawsuits, investigations and inquiries, and other proceedings may involve significant expense, divert management's attention and resources from other matters, and impact the reputation of the Company.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The percentage of our owned and leased facilities that were operating at the end of fiscal 2017, along with the total square footage, follows.

square footage in millions	Owned	Leased	Total Square Footage
Stores [1]	90 %	10 %	237.4
Warehouses and distribution centers [2]	4 %	96 %	55.0
Offices and other	21 %	79 %	4.3
Total			296.7

(1) Our owned stores include those subject to ground leases.

(2) Located in 48 states or provinces.

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Our U.S. store locations at the end of fiscal 2017 follow.

U.S.	Stores		Stores
Alabama	28	Montana	6
Alaska	7	Nebraska	8
Arizona	56	Nevada	21
Arkansas	14	New Hampshire	20
California	232	New Jersey	67
Colorado	46	New Mexico	13
Connecticut	29	New York	100
Delaware	9	North Carolina	40
District of Columbia	1	North Dakota	2
Florida	153	Ohio	70
Georgia	90	Oklahoma	16
Guam	1	Oregon	27
Hawaii	7	Pennsylvania	70
Idaho	11	Puerto Rico	9
Illinois	76	Rhode Island	8
Indiana	24	South Carolina	25
Iowa	10	South Dakota	1
Kansas	16	Tennessee	39
Kentucky	14	Texas	179
Louisiana	28	Utah	22
Maine	11	Vermont	3
Maryland	41	Virgin Islands	2
Massachusetts	45	Virginia	49
Michigan	70	Washington	45
Minnesota	33	West Virginia	6
Mississippi	14	Wisconsin	27
Missouri	34	Wyoming	5
		Total U.S.	1,980

Our store locations outside of the U.S. at the end of fiscal 2017 follow.

Canada	Stores	Mexico	Stores
Alberta	27	Aguascalientes	2
British Columbia	26	Baja California	5
Manitoba	6	Baja California Sur	2
New Brunswick	3	Campeche	2
Newfoundland	1	Chiapas	2
Nova Scotia	4	Chihuahua	6
Ontario	88	Coahuila	5
Prince Edward Island	1	Colima	2
Quebec	22	Distrito Federal	10
Saskatchewan	4	Durango	1
Total Canada	182	Guanajuato	5
		Guerrero	2
		Hidalgo	1
		Jalisco	7
		Michoacán	4
		Morelos	3
		Nayarit	1
		Nuevo León	10
		Oaxaca	1
		Puebla	5
		Queretaro	3
		Quintana Roo	3
		San Luis Potosi	2
		Sinaloa	5
		Sonora	4
		State of Mexico	14
		Tabasco	1
		Tamaulipas	5
		Tlaxcala	1
		Veracruz	5
		Yucatan	2
		Zacatecas	1
		Total Mexico	122

Item 3. Legal Proceedings.

For a description of the claims and investigations related to the Data Breach that we discovered in the third quarter of fiscal 2014, see Note 11 to our consolidated financial statements included in Item 8, "Financial Statements and Supplementary Data," 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.

In February 2018, we received a letter from the California South Coast Air Quality Management District ("SCAQMD") regarding allegations that we sold certain non-compliant paint thinners and solvents from 2010 to 2015 in violation of applicable rules. We are currently in discussions with SCAQMD. Although we cannot predict the outcome of this matter, we do not expect the outcome to have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

As previously reported, in January 2017, we became aware of an investigation by the EPA's criminal investigation division into our compliance with lead-safe work practices for certain jobs performed through our installation services business. We have also previously responded to civil document requests from several EPA regions. We are continuing to cooperate with the EPA.

As previously reported, in November 2013, we received subpoenas from the District Attorney of Alameda County, California, working with various District Attorneys and the California Attorney General's office (collectively, the "District Attorneys"), seeking documents and information relating to our disposal of hazardous waste at our California facilities. The District Attorneys sought monetary penalties and certain changes to our operations with respect to the disposal of hazardous waste in California. In the first quarter of fiscal 2018, the Alameda County Superior Court approved a settlement agreement among the parties to resolve this matter for an aggregate of $21 million in penalties, costs, and supplemental environmental projects; the obligation to perform other environmental compliance activities in lieu of additional penalties; and certain injunctive relief.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Since April 19, 1984, our common stock has been listed on the NYSE, trading under the symbol "HD". We paid our first cash dividend on June 22, 1987 and have paid a cash dividend during each subsequent quarter. While we currently expect a cash dividend to be paid in the future, future dividend payments will depend on our earnings, capital requirements, financial condition, and other factors considered relevant by our Board of Directors.

The table below sets forth the high and low closing sales prices of our common stock on the NYSE and the quarterly cash dividend declared per share for the periods indicated.

	Price Range		Cash Dividend Declared Per Share
	High	Low	
Fiscal 2017:			
First quarter ended April 30, 2017	$ 156.12	$ 136.49	$ 0.89
Second quarter ended July 30, 2017	158.81	144.58	0.89
Third quarter ended October 29, 2017	167.65	147.49	0.89
Fourth quarter ended January 28, 2018	207.23	162.71	1.03
Fiscal 2016:			
First quarter ended May 1, 2016	$ 136.80	$ 111.85	$ 0.69
Second quarter ended July 31, 2016	138.24	124.67	0.69
Third quarter ended October 30, 2016	138.77	122.26	0.69
Fourth quarter ended January 29, 2017	138.46	119.89	0.89

At March 2, 2018, there were approximately 114,000 holders of record of our common stock and approximately 2,053,000 additional "street name" holders whose shares are held of record by banks, brokers, and other financial institutions.

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Stock Performance Graph

The graph and table below present our cumulative total shareholder returns relative to the performance of the S&P Retail Composite Index and the S&P 500 Index for the five most recent fiscal years. The graph assumes $100 was invested at the closing price of our common stock on the NYSE and in each index on the last trading day of fiscal 2012, and assumes that all dividends were reinvested on the date paid. The points on the graph represent fiscal year-end amounts based on the last trading day in each fiscal year.

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The Home Depot   S&P Retail Composite Index   S&P 500 Index

	Fiscal Year Ended					
	February 3, 2013	February 2, 2014	February 1, 2015	January 31, 2016	January 29, 2017	January 28, 2018
The Home Depot	$ 100.00	$ 116.59	$ 161.86	$ 198.89	$ 223.43	$ 342.43
S&P Retail Composite Index	100.00	125.28	150.45	175.72	208.32	302.55
S&P 500 Index	100.00	119.90	136.95	136.03	164.40	209.93

Issuer Purchases of Equity Securities

Since the inception of our initial share repurchase program in fiscal 2002 through the end of fiscal 2017, we have repurchased shares of our common stock having a value of approximately $75.1 billion. The number and average price of shares purchased in each fiscal month of the fourth quarter of fiscal 2017 follow.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Program (2)	Dollar Value of Shares that May Yet Be Purchased Under the Program (2)
Oct. 30, 2017 – Nov. 26, 2017	753,441	$ 198.52	739,162	$ 9,052,805,480
Nov. 27, 2017 – Dec. 24, 2017	3,906,875	184.34	3,905,783	14,280,001,110
Dec. 25, 2017 – Jan. 28, 2018	6,824,118	195.67	6,822,816	12,945,001,270
Total	11,484,434	192.00	11,467,761	

(1) *These amounts include repurchases pursuant to our Amended and Restated 2005 Omnibus Stock Incentive Plan and our 1997 Omnibus Stock Incentive Plan (collectively, 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 February 2017, our Board of Directors authorized a $15.0 billion share repurchase program that replaced the previous authorization, of which approximately $9.1 billion remained available at the end of November 2017. In December 2017, our Board of Directors authorized a new $15.0 billion share repurchase program that replaced the February 2017 authorization. This new repurchase program does not have a prescribed expiration date. At the end of fiscal 2017, approximately $12.9 billion of the December 2017 authorization remained available.*

Sales of Unregistered Securities

During the fourth quarter of fiscal 2017, we issued 471 deferred stock units under the Home Depot, Inc. Nonemployee Directors' Deferred Stock Compensation Plan pursuant to the exemption from registration provided by Section 4(a)(2) of 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 fourth 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.

During the fourth quarter of fiscal 2017, we credited 1,045 deferred stock units to participant accounts under the 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 a termination of service as described in this plan.

Item 6. Selected Financial Data.

The information required by this item is incorporated by reference to page F-1 of this report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our MD&A includes the following sections:

- Executive Summary
- Results of Operations
- Liquidity and Capital Resources
- Critical Accounting Policies

Executive Summary

Highlights of our annual financial performance follow.

dollars in millions, except per share data	Fiscal 2017	Fiscal 2016	Fiscal 2015
Net sales	$ 100,904	$ 94,595	$ 88,519
Net earnings	8,630	7,957	7,009
Diluted earnings per share	7.29	6.45	5.46
Net cash provided by operating activities	$ 12,031	$ 9,783	$ 9,373
Proceeds from long-term debt, net of discounts	2,991	4,959	3,991
Repayments of long-term debt	543	3,045	39
Repurchases of common stock	8,000	6,880	7,000

We reported net sales of $100.9 billion in fiscal 2017. Net earnings were $8.6 billion, or $7.29 per diluted share, and reflected the following:

- In the third quarter of fiscal 2017, three hurricanes impacted our operations in the continental U.S., Puerto Rico, and the U.S. Virgin Islands. Hurricane-related sales contributed approximately $662 million to net sales in the second half of fiscal 2017. The gross profit on these hurricane-related sales was considerably less than the Company average. We also incurred approximately $170 million of hurricane-related expenses in the second half of fiscal 2017.

- In the fourth quarter of fiscal 2017, we paid a one-time cash bonus to our U.S. hourly associates, which negatively impacted net earnings by $72 million and reduced diluted earnings per share by approximately $0.06.

- On December 22, 2017, the U.S. government enacted the Tax Act, which included a reduction in the U.S. federal statutory tax rate from 35% to 21% and a transition to a modified territorial system. As a result of the enactment of the Tax Act, we recorded a net $127 million charge in the fourth quarter of fiscal 2017. This charge resulted in a $0.11 reduction to diluted earnings per share in fiscal 2017 (see Note 5 to the Consolidated Financial Statements for further discussion).

- Results for fiscal 2017 also reflected a benefit of $106 million to our provision for income taxes for share-based payment awards resulting from the adoption of ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" in the first quarter of fiscal 2017. This benefit contributed $0.09 to diluted earnings per share in fiscal 2017.

We opened three new stores in the U.S. and three new stores in Mexico during fiscal 2017, for a total store count of 2,284 at January 28, 2018. At the end of fiscal 2017, a total of 304 of our stores, or 13.3%, were located in Canada and Mexico. Total sales per square foot were $417.02 in fiscal 2017, and our inventory turnover ratio was 5.1 times at the end of fiscal 2017.

In February 2017, our Board of Directors increased our targeted dividend payout ratio to 55% of prior-year diluted earnings per share. Also in February 2017, our Board of Directors authorized a $15.0 billion share repurchase program that replaced the previous authorization. In December 2017, our Board of Directors authorized a new $15.0 billion share repurchase program that replaced the February 2017 authorization. During fiscal 2017, we repurchased a total of 49.5 million shares of our common stock for $8.0 billion through ASR agreements and open market transactions. In February 2018, we announced a 15.7% increase in our quarterly cash dividend to $1.03 per share.

We generated $12.0 billion of cash flow from operations during fiscal 2017. This cash flow, along with $3.0 billion of long-term debt and $850 million of net short-term borrowings in fiscal 2017, was used to repay $500 million of floating rate senior notes that matured in September 2017, fund cash payments of $8.0

billion for share repurchases, pay $4.2 billion of cash dividends, fund $1.9 billion in capital expenditures, and acquire Compact Power and The Company Store.

Our ROIC was 34.2% for fiscal 2017. We define ROIC as 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. For a reconciliation of NOPAT to net earnings, the most comparable GAAP financial measure, and our calculation of ROIC, see the "Non-GAAP Financial Measures" section below.

Results of Operations

The tables and discussion below should be read in conjunction with our consolidated financial statements and related notes included in this report. We believe the percentage relationship between net sales and major categories in our consolidated statements of earnings, as well as the percentage change in the associated dollar amounts, are relevant to an evaluation of our business.

	Fiscal 2017		Fiscal 2016		Fiscal 2015	
dollars in millions	$	% of Net Sales	$	% of Net Sales	$	% of Net Sales
Net sales	$ 100,904		$ 94,595		$ 88,519	
Gross profit	34,356	34.0 %	32,313	34.2 %	30,265	34.2 %
Operating expenses:						
Selling, general and administrative	17,864	17.7	17,132	18.1	16,801	19.0
Depreciation and amortization	1,811	1.8	1,754	1.9	1,690	1.9
Total operating expenses	19,675	19.5	18,886	20.0	18,491	20.9
Operating income	14,681	14.5	13,427	14.2	11,774	13.3
Interest and other (income) expense:						
Interest and investment income	(74)	(0.1)	(36)	—	(166)	(0.2)
Interest expense	1,057	1.0	972	1.0	919	1.0
Interest and other, net	983	1.0	936	1.0	753	0.9
Earnings before provision for income taxes	13,698	13.6	12,491	13.2	11,021	12.5
Provision for income taxes	5,068	5.0	4,534	4.8	4,012	4.5
Net earnings	$ 8,630	8.6 %	$ 7,957	8.4 %	$ 7,009	7.9 %

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

				% Change	
	Fiscal 2017	Fiscal 2016	Fiscal 2015	Fiscal 2017 vs. 2016	Fiscal 2016 vs. 2015
Selected financial and sales data:					
Comparable sales increase (%) (1)	6.8 %	5.6 %	5.6 %	N/A	N/A
Comparable customer transactions increase (%) (1)	2.2 %	2.8 %	4.0 %	N/A	N/A
Comparable average ticket increase (%) (1)	4.5 %	2.7 %	1.6 %	N/A	N/A
Customer transactions (in millions) (1)	1,578.6	1,544.0	1,500.8	2.2 %	2.9 %
Average ticket (1)	$63.06	$60.35	$58.77	4.5 %	2.7 %
Sales per square foot (1)	$417.02	$390.78	$370.55	6.7 %	5.5 %
Diluted earnings per share	$7.29	$6.45	$5.46	13.0 %	18.1 %

(1) *Does not include results for Interline, which was acquired in the third quarter of fiscal 2015.*

Fiscal 2017 Compared to Fiscal 2016

Sales. We assess our sales performance by evaluating both net sales and comparable sales.

Net Sales. Net sales for fiscal 2017 increased $6.3 billion, or 6.7%, to $100.9 billion. The increase in net sales in fiscal 2017 primarily reflected the impact of positive comparable sales driven by increased customer transactions and average ticket growth. Hurricane-related sales contributed approximately $662 million to net sales in the second half of fiscal 2017.

Comparable Sales. Comparable sales is a measure that highlights the performance of our existing locations and websites by measuring the change in sales for a period over the comparable, prior-period of equivalent length. Comparable sales includes sales at all locations, physical and online, open greater than 52 weeks (including remodels and relocations) and excluding closed stores. Retail stores become comparable on the Monday following their 365th day of operation. Acquisitions, digital or otherwise, are included after we own them for greater than 52 weeks (with the exception of Interline which is excluded from comparable sales). Comparable sales is intended only as supplemental information and is not a substitute for net sales presented in accordance with GAAP.

Total comparable sales increased 6.8% in fiscal 2017. The increase in comparable sales reflected a number of factors, including the execution of our strategy and broad-based growth across our stores and online. Online sales, which consist of sales generated online through our websites for products picked up in our stores or delivered to customer locations, represented 6.7% of net sales and grew 21.5% during fiscal 2017. All of our merchandising departments posted positive comparable sales except for one, which was flat in fiscal 2017. Comparable sales for our Lumber, Electrical, Tools, Appliances, Flooring, Building Materials, and Indoor Garden merchandising departments were above the Company average during fiscal 2017. Our comparable customer transactions increased 2.2% during fiscal 2017. Further, our comparable average ticket increased 4.5% in fiscal 2017, due in part to strong sales in big ticket purchases in certain merchandising departments, such as Appliances and Flooring.

Gross Profit. Gross profit increased $2.0 billion, or 6.3%, to $34.4 billion in fiscal 2017. Gross profit as a percent of net sales, or gross profit margin, was 34.0% in fiscal 2017 compared to 34.2% in fiscal 2016. The modest decline in gross profit margin for fiscal 2017 reflected the impact of lower margin hurricane-related sales and higher shrink, partially offset by benefits from our supply chain.

Operating Expenses. Our operating expenses are composed of SG&A and depreciation and amortization.

Selling, General & Administrative. SG&A increased $732 million, or 4.3%, to $17.9 billion in fiscal 2017 and included approximately $170 million of hurricane-related expenses. As a percent of net sales, SG&A was 17.7% for fiscal 2017 compared to 18.1% for fiscal 2016. The decrease in SG&A as a percent of net sales for fiscal 2017 reflected expense leverage resulting from the positive comparable sales environment and continued expense control.

Depreciation and Amortization. Depreciation and amortization increased $57 million, or 3.2%, in fiscal 2017. The decrease in depreciation and amortization as a percent of net sales to 1.8% in fiscal 2017 from 1.9% in fiscal 2016 reflected expense leverage resulting from the positive comparable sales environment.

Interest and Other, net. Interest and other, net, was $983 million for fiscal 2017 compared to $936 million for fiscal 2016. Interest and other, net, as a percent of net sales was 1.0% for both fiscal 2017 and 2016 and reflected additional interest expense in fiscal 2017 resulting from higher long-term debt balances in fiscal 2017, offset by higher interest income in fiscal 2017 compared to fiscal 2016.

Provision for Income Taxes. Our combined effective income tax rate was 37.0% for fiscal 2017 compared to 36.3% for fiscal 2016. The effective income tax rate for fiscal 2017 reflected a net $127 million charge resulting from the enactment of the Tax Act. The effective income tax rate for fiscal 2017 also reflected a $106 million benefit to our provision for income taxes for share-based payment awards as a result of our adoption of ASU No. 2016-09 (see Note 1 and Note 5 to our consolidated financial statements for further discussion).

Diluted Earnings per Share. Diluted earnings per share were $7.29 for fiscal 2017 compared to $6.45 for fiscal 2016. Diluted earnings per share for fiscal 2017 included a benefit of $0.09 per share as a result of the adoption of ASU No. 2016-09, as well as decreases of $0.11 per share due to the net tax charge recorded in connection with the enactment of the Tax Act and $0.06 per share due to the one-time bonus payment to hourly associates made as a result of the Tax Act.

Fiscal 2016 Compared to Fiscal 2015

Sales.

Net Sales. Net sales for fiscal 2016 increased $6.1 billion, or 6.9%, to $94.6 billion. The increase in net sales for fiscal 2016 primarily reflected the impact of positive comparable sales driven by increased customer transactions and average ticket growth, as well as sales from Interline, which was acquired in the third quarter of fiscal 2015.

The increase in net sales was partially offset by pressure from a stronger U.S. dollar, which negatively impacted total sales growth by $549 million in fiscal 2016.

Comparable Sales. Total comparable sales increased 5.6% for fiscal 2016, which reflected a number of factors, including the execution of our strategy, improved strength across our business, and an improved U.S. home improvement market. Online sales represented 5.9% of net sales and grew 19.3% during fiscal 2016. All of our merchandising departments posted positive comparable sales for fiscal 2016. Comparable sales for our Appliances, Tools, Lumber, Lighting, Décor, Building Materials, and Indoor Garden merchandising departments were above the Company average for fiscal 2016. Further, our comparable customer transactions increased 2.8% for fiscal 2016 and comparable average ticket increased 2.7% for fiscal 2016, due in part to strong sales in big ticket purchases in merchandising departments such as Appliances, Flooring, and Roofing, offset in part by a stronger U.S. dollar.

Gross Profit. Gross profit for fiscal 2016 increased $2.0 billion, or 6.8%, to $32.3 billion. Gross profit as a percent of net sales, or gross profit margin, was 34.2% for both fiscal 2016 and 2015. Gross profit margin for fiscal 2016 reflected the impact of product mix changes, offset by benefits from our supply chain driven by increased productivity, and benefits from reaching higher levels of co-op allowances and rebates in certain category classes.

Operating Expenses.

Selling, General & Administrative. SG&A for fiscal 2016 increased $331 million, or 2.0%, to $17.1 billion. SG&A included Data Breach-related pretax expenses of $37 million in fiscal 2016 compared to $128 million of pretax net expenses in fiscal 2015. As a percent of net sales, SG&A was 18.1% for fiscal 2016 compared to 19.0% for fiscal 2015. The decrease in SG&A as a percent of net sales for fiscal 2016 reflected expense leverage resulting from the positive comparable sales environment and strong expense control.

Depreciation and Amortization. Depreciation and amortization for fiscal 2016 increased $64 million, or 3.8%, to $1.8 billion. Depreciation and amortization as a percent of net sales was 1.9% for both fiscal 2016 and 2015. Depreciation and amortization as a percent of net sales for fiscal 2016 reflected minor expense leverage resulting from the positive comparable sales environment.

Interest and Other, net. In fiscal 2016, we recognized $936 million of interest and other, net, compared to $753 million for fiscal 2015. Interest and other, net, for fiscal 2015 included a $144 million pretax gain related to the sale of our remaining equity ownership in HD Supply. Interest and other, net, as a percent of net sales was 1.0% for fiscal 2016 compared to 0.9% for fiscal 2015 due primarily to the HD Supply pretax gain in fiscal 2015 noted above and higher long-term debt balances in fiscal 2016.

Provision for Income Taxes. Our combined effective income tax rate was 36.3% for fiscal 2016 and 36.4% for fiscal 2015.

Diluted Earnings per Share. Diluted earnings per share were $6.45 for fiscal 2016 compared to $5.46 for fiscal 2015. Expenses related to the Data Breach resulted in decreases of $0.02 and $0.06 to diluted earnings per share for fiscal 2016 and 2015, respectively. The gain on the sale of our remaining equity ownership in HD Supply contributed a benefit of $0.07 to diluted earnings per share for fiscal 2015.

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

The calculation of ROIC, together with a reconciliation of NOPAT to net earnings (the most comparable GAAP measure), follows.

dollars in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Net earnings	$ 8,630	$ 7,957	$ 7,009
Interest and other, net	983	936	753
Provision for income taxes	5,068	4,534	4,012
Operating income	14,681	13,427	11,774
Income tax adjustment [(1)]	(5,432)	(4,874)	(4,286)
NOPAT	$ 9,249	$ 8,553	$ 7,488
Average debt and equity	$ 27,074	$ 27,203	$ 26,663
ROIC	34.2 %	31.4 %	28.1 %

(1) Income tax adjustment is defined as operating income multiplied by our effective tax rate.

Additional Information

For information on accounting pronouncements that have impacted or are expected to materially impact our consolidated financial condition, results of operations, or cash flows, see Note 1 to our consolidated financial statements.

Liquidity and Capital Resources

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Operating Activities. Cash flow generated from operations provides us with a significant source of liquidity. Our operating cash flows result primarily from cash received from our customers, offset by cash payments we make for products and services, employee compensation, operations and occupancy costs.

Net cash provided by operating activities increased $2.2 billion in fiscal 2017 and increased $410 million in fiscal 2016, and primarily reflected an increase in net earnings, excluding changes in working capital and non-cash items from operations. The increase in earnings resulted from higher comparable sales and expense leverage in both fiscal years.

Cash provided by or used in operating activities is also subject to changes in working capital. Working capital at any specific point in time is subject to many variables, including seasonality, inventory management and category expansion, the timing of cash receipts and payments, vendor payment terms, and fluctuations in foreign exchange rates.

Investing Activities. Cash used in investing activities primarily reflected:

- $1.9 billion of capital expenditures for investments in our business and $374 million cash paid in connection with the acquisitions of Compact Power and The Company Store in fiscal 2017;
- $1.6 billion of capital expenditures for investments in our business in fiscal 2016; and
- $1.7 billion paid in connection with the acquisition of Interline and $1.5 billion of capital expenditures for investments in our business in fiscal 2015.

Financing Activities. Cash used in financing activities primarily reflected:

- $8.0 billion of share repurchases and $4.2 billion of cash dividends paid, partially offset by $3.3 billion of net proceeds from short- and long-term borrowings in fiscal 2017;
- $6.9 billion of share repurchases and $3.4 billion of cash dividends paid, partially offset by $2.3 billion of net proceeds from short- and long-term borrowings in fiscal 2016; and
- $7.0 billion of share repurchases and $3.0 billion of cash dividends paid, partially offset by $4.0 billion of net proceeds from short- and long-term borrowings in fiscal 2015.

Cash and Cash Equivalents at End of Year. At January 28, 2018, we had $3.6 billion in cash and cash equivalents, of which $3.2 billion was held by our foreign subsidiaries. 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.

Debt and Derivatives

In December 2017, we increased the borrowing capacity of our commercial paper programs from $2.0 billion to $3.0 billion. All of our short-term borrowings in fiscal 2017 and fiscal 2016 were under these commercial paper programs. In connection with these programs, we have back-up credit facilities with a consortium of banks for borrowings up to $3.0 billion. In December 2017, we replaced our five-year $2.0 billion credit facility that was scheduled to expire in December 2019, with a new, substantially identical five-year $2.0 billion credit facility that expires in December 2022. In addition, we added a separate 364-day $1.0 billion credit facility that expires in December 2018. At January 28, 2018, we were in compliance with all of the covenants contained in the credit facilities, and none are expected to impact our liquidity or capital resources. At January 28, 2018 and January 29, 2017, there were $1.6 billion and $710 million, respectively, of borrowings outstanding under the commercial paper programs. We also issue senior notes from time to time.

We use derivative financial instruments in the management of our exposure to fluctuations in foreign currencies and interest rates on certain long-term debt. See Note 4 and Note 7 to our consolidated financial statements for further discussion of our debt and derivative agreements.

Leases

We use capital and operating leases to finance a portion of our real estate, including our stores, distribution centers, and store support centers. See Note 3 and Note 4 to our consolidated financial statements for further discussion of our capital and operating leases.

Share Repurchases

In fiscal 2017, we repurchased 49.5 million shares of our common stock for $8.0 billion through ASR agreements and open market transactions. In February 2017, our Board of Directors authorized a $15.0 billion share repurchase program that replaced the previous authorization. In December 2017, our Board of Directors authorized a new $15.0 billion share repurchase program that replaced the February 2017 authorization. See Note 6 to our consolidated financial statements for further discussion of our share repurchases.

Contractual Obligations

Our significant contractual obligations at January 28, 2018 were as follows:

	Payments Due by Period				
in millions	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Short-term debt	$ 1,559	$ 1,559	$ —	$ —	$ —
Long-term debt – principal payments (1)	24,750	1,150	2,750	3,600	17,250
Long-term debt – interest payments (2)	15,167	914	1,739	1,526	10,988
Capital lease obligations (3)	1,753	147	298	264	1,044
Operating lease obligations	7,138	921	1,655	1,276	3,286
Purchase obligations (4)	1,634	1,123	269	110	132
Unrecognized tax benefits (5)	187	187	—	—	—
Total	$ 52,188	$ 6,001	$ 6,711	$ 6,776	$ 32,700

(1) *Excludes capital lease obligations.*

(2) *Interest payments are calculated at current interest rates, including the impact of active interest rate swaps.*

(3) *Includes $769 million of imputed interest.*

(4) *Purchase obligations include all legally binding contracts such as firm commitments for inventory purchases, utility purchases, capital expenditures, software acquisitions and license commitments, and legally binding service contracts. Purchase orders that are not binding agreements are excluded from the table above.*

(5) *Excludes $450 million of noncurrent unrecognized tax benefits due to uncertainty regarding the timing of future cash tax payments.*

Off-Balance Sheet Arrangements

We have operating leases for a portion of our real estate and other assets that are not reflected in our consolidated balance sheets.

Critical Accounting Policies

Our significant accounting policies are disclosed in Note 1 to our consolidated financial statements. The following discussion addresses our most critical accounting policies, which are those that are both important to the portrayal of our financial condition and results of operations, and that require significant judgment or use of significant assumptions or complex estimates.

Merchandise Inventories

We value the substantial majority of our inventory under the retail inventory method, using the first-in, first-out method, with the remainder of our inventories valued under a cost method. Under the retail inventory method, inventories are stated at cost, which is determined by applying a cost-to-retail ratio to the retail value of inventories. The retail value of our inventory is adjusted as needed to reflect current market conditions. Because these adjustments are based on current prevailing market conditions, the value of our inventory approximates the lower of cost or market.

As the valuation under the retail inventory method is based on estimates such as markups, markdowns, and inventory losses (or shrink), there exists an inherent uncertainty in the final determination of inventory cost and gross profit. We do not believe there is a reasonable likelihood for a material change in the estimates or assumptions we use to value our inventory under the retail inventory method. We believe that the retail inventory method provides an inventory valuation which approximates cost and results in valuing our inventory at the lower of cost or market.

Impairment of Long-Lived Assets

We evaluate our long-lived assets each quarter for indicators of potential impairment. Indicators of impairment include current period losses combined with a history of losses, our decision to relocate or close a store or other location before the end of its previously estimated useful life, or when changes in other circumstances indicate the carrying amount of an asset may not be recoverable. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The assets of a store with indicators of impairment are evaluated for recoverability by comparing its undiscounted future cash flows with its carrying value. Our cash flow projections look several years into the future and include assumptions on variables such as future sales and operating margin growth rates, economic conditions, market competition, and inflation.

If the carrying value is greater than the undiscounted future cash flows, we then measure the asset's fair value to determine whether an impairment loss should be recognized. If the resulting fair value is less than the carrying value, an impairment loss is recognized. We generally base our estimates of fair market value on market appraisals of owned locations and estimates of the amount of potential sublease income and the time required to sublease for leased locations. Impairments and lease obligation costs on closings and relocations were not material to our consolidated financial statements in fiscal 2017.

Self-Insurance

We have established liabilities for certain losses related to general liability (including product liability), workers' compensation, employee group medical, and automobile claims for which we are self-insured. Our self-insured retention or deductible, as applicable, for each claim involving general liability, workers' compensation, and automobile liability is limited to $25 million, $1 million, and $1 million, respectively. We have no stop loss limits for self-insured employee group medical claims. Our liabilities represent estimates of the ultimate cost for claims incurred at the balance sheet date. The estimated liabilities are not discounted and are established based upon analysis of historical data and actuarial estimates. The liabilities are reviewed by management and third-party actuaries on a regular basis to ensure that they are appropriate. While we believe these estimates are reasonable based on the information currently available, if actual trends, including the severity or frequency of claims, medical cost inflation or fluctuations in premiums, differ from our estimates, our results of operations could be impacted. Actual results related to these types of claims did not vary materially from estimated amounts for fiscal 2017, 2016 or 2015.

Revenues

We recognize revenue, net of estimated returns and sales tax, at the time the customer takes possession of merchandise or when a service is performed. We estimate the liability for sales returns, including the estimated gross profit impact, based on our historical return levels and believe that our estimate for sales returns is a reasonable reflection of future returns.

We defer revenue and the related gross profit for payments received from customers for which the customer has not yet taken possession of merchandise or we have not yet performed the service for the customer. This amount is recorded as deferred revenue. We estimate the gross profit related to deferred revenue using historical rates, which we believe to be a reasonable reflection of future rates. If these estimates significantly differ from actual amounts, our net sales and gross profit could be adversely impacted.

Vendor Allowances

Vendor allowances primarily consist of volume rebates that are earned as a result of attaining certain purchase levels and co-op advertising allowances for the promotion of vendors' products that are typically based on guaranteed minimum amounts with additional amounts being earned for attaining certain purchase levels. These vendor allowances are accrued as earned, with those allowances received as a result of attaining certain purchase levels accrued over the incentive period based on estimates of purchases. We believe that our estimate of vendor allowances earned based on expected volume of purchases over the incentive period is an accurate reflection of the ultimate allowance to be received from our vendors.

Volume rebates and certain co-op advertising allowances earned are initially recorded as a reduction in merchandise inventories and a subsequent reduction in cost of sales when the related product is sold. Certain co-op advertising allowances that are reimbursements of specific, incremental and identifiable costs incurred to promote vendors' products are recorded as an offset against advertising expense in SG&A.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk. We have exposure to interest rate risk in connection with our long-term debt portfolio. We use interest rate swap agreements to manage our fixed/floating rate debt portfolio. At January 28, 2018, after giving consideration to our interest rate swap agreements, floating rate debt principal was $1.75 billion, or approximately 7% of our debt portfolio. A 1.0 percentage point change in the interest costs of floating-rate debt would not have a material impact on our financial condition or results of operations.

Foreign Currency Exchange Rate Risk. We are 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. Revenues from these foreign operations accounted for approximately $8.5 billion of our revenue for fiscal 2017. Our exposure to foreign currency rate fluctuations is not material to our financial condition or results of operations.

Commodity Price Risk. We have experienced inflation and deflation related to our purchase of certain commodity products. We do not believe that changing prices for commodities have had a material effect on our net sales or results of operations. Although we cannot precisely determine the overall effect of inflation and deflation on operations, we do not believe inflation and deflation have had a material effect on our financial condition or results of operations.

Item 8. Financial Statements and Supplementary Data.

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Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors
The Home Depot, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying Consolidated Balance Sheets of The Home Depot, Inc. and Subsidiaries as of January 28, 2018 and January 29, 2017, and the related Consolidated Statements of Earnings, Comprehensive Income, Stockholders' Equity, and Cash Flows for each of the fiscal years in the three-year period ended January 28, 2018 and the related notes (collectively, the "Consolidated Financial Statements"). In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the financial position of The Home Depot, Inc. and Subsidiaries as of January 28, 2018 and January 29, 2017, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended January 28, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), The Home Depot, Inc.'s internal control over financial reporting as of January 28, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 22, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These Consolidated Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the Consolidated Financial Statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the Consolidated Financial Statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1979.

Atlanta, Georgia
March 22, 2018

THE HOME DEPOT, INC.
CONSOLIDATED BALANCE SHEETS

in millions, except per share data	January 28, 2018	January 29, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 3,595	$ 2,538
Receivables, net	1,952	2,029
Merchandise inventories	12,748	12,549
Other current assets	638	608
Total current assets	18,933	17,724
Net property and equipment	22,075	21,914
Goodwill	2,275	2,093
Other assets	1,246	1,235
Total assets	$ 44,529	$ 42,966
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term debt	$ 1,559	$ 710
Accounts payable	7,244	7,000
Accrued salaries and related expenses	1,640	1,484
Sales taxes payable	520	508
Deferred revenue	1,805	1,669
Income taxes payable	54	25
Current installments of long-term debt	1,202	542
Other accrued expenses	2,170	2,195
Total current liabilities	16,194	14,133
Long-term debt, excluding current installments	24,267	22,349
Deferred income taxes	440	296
Other long-term liabilities	2,174	1,855
Total liabilities	43,075	38,633
Common stock, par value $0.05; authorized: 10,000 shares; issued: 1,780 shares at January 28, 2018 and 1,776 shares at January 29, 2017	89	88
Paid-in capital	10,192	9,787
Retained earnings	39,935	35,519
Accumulated other comprehensive loss	(566)	(867)
Treasury stock, at cost, 622 shares at January 28, 2018 and 573 shares at January 29, 2017	(48,196)	(40,194)
Total stockholders' equity	1,454	4,333
Total liabilities and stockholders' equity	$ 44,529	$ 42,966

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF EARNINGS

in millions, except per share data	Fiscal 2017	Fiscal 2016	Fiscal 2015
Net sales	$ 100,904	$ 94,595	$ 88,519
Cost of sales	66,548	62,282	58,254
Gross profit	34,356	32,313	30,265
Operating expenses:			
Selling, general and administrative	17,864	17,132	16,801
Depreciation and amortization	1,811	1,754	1,690
Total operating expenses	19,675	18,886	18,491
Operating income	14,681	13,427	11,774
Interest and other (income) expense:			
Interest and investment income	(74)	(36)	(166)
Interest expense	1,057	972	919
Interest and other, net	983	936	753
Earnings before provision for income taxes	13,698	12,491	11,021
Provision for income taxes	5,068	4,534	4,012
Net earnings	$ 8,630	$ 7,957	$ 7,009
Basic weighted average common shares	1,178	1,229	1,277
Basic earnings per share	$ 7.33	$ 6.47	$ 5.49
Diluted weighted average common shares	1,184	1,234	1,283
Diluted earnings per share	$ 7.29	$ 6.45	$ 5.46

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Net earnings	$ 8,630	$ 7,957	$ 7,009
Other comprehensive income (loss):			
Foreign currency translation adjustments	311	(3)	(412)
Cash flow hedges, net of tax	(1)	34	(34)
Other	(9)	—	—
Total other comprehensive income (loss)	301	31	(446)
Comprehensive income	$ 8,931	$ 7,988	$ 6,563

See accompanying notes to consolidated financial statements.

THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

in millions, except per share data	Fiscal 2017	Fiscal 2016	Fiscal 2015
Common Stock:			
Balance at beginning of year	$ 88	$ 88	$ 88
Shares issued under employee stock plans	1	—	—
Balance at end of year	89	88	88
Paid-in Capital:			
Balance at beginning of year	9,787	9,347	8,885
Shares issued under employee stock plans	132	76	73
Tax effect of stock-based compensation	—	97	145
Stock-based compensation expense	273	267	244
Balance at end of year	10,192	9,787	9,347
Retained Earnings:			
Balance at beginning of year	35,519	30,973	26,995
Net earnings	8,630	7,957	7,009
Cash dividends ($3.56 per share in fiscal 2017, $2.76 per share in fiscal 2016, and $2.36 per share in fiscal 2015)	(4,212)	(3,404)	(3,031)
Other	(2)	(7)	—
Balance at end of year	39,935	35,519	30,973
Accumulated Other Comprehensive Income (Loss):			
Balance at beginning of year	(867)	(898)	(452)
Foreign currency translation adjustments	311	(3)	(412)
Cash flow hedges, net of tax	(1)	34	(34)
Other	(9)	—	—
Balance at end of year	(566)	(867)	(898)
Treasury Stock:			
Balance at beginning of year	(40,194)	(33,194)	(26,194)
Repurchases of common stock	(8,002)	(7,000)	(7,000)
Balance at end of year	(48,196)	(40,194)	(33,194)
Total stockholders' equity	$ 1,454	$ 4,333	$ 6,316

See accompanying notes to consolidated financial statements.

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THE HOME DEPOT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Cash Flows from Operating Activities:			
Net earnings	$ 8,630	$ 7,957	$ 7,009
Reconciliation of net earnings to net cash provided by operating activities:			
Depreciation and amortization	2,062	1,973	1,863
Stock-based compensation expense	273	267	244
Gain on sales of investments	—	—	(144)
Changes in assets and liabilities, net of acquisition effects:			
Receivables, net	139	(138)	(181)
Merchandise inventories	(84)	(769)	(546)
Other current assets	(10)	(48)	(5)
Accounts payable and accrued expenses	352	446	888
Deferred revenue	128	99	109
Income taxes payable	29	109	154
Deferred income taxes	92	(117)	15
Other	420	4	(33)
Net cash provided by operating activities	12,031	9,783	9,373
Cash Flows from Investing Activities:			
Capital expenditures, net of non-cash capital expenditures	(1,897)	(1,621)	(1,503)
Proceeds from sales of investments	—	—	144
Payments for businesses acquired, net	(374)	—	(1,666)
Proceeds from sales of property and equipment	47	38	43
Other investing activities	(4)	—	—
Net cash used in investing activities	(2,228)	(1,583)	(2,982)
Cash Flows from Financing Activities:			
Proceeds from short-term debt, net	850	360	60
Proceeds from long-term debt, net of discounts	2,991	4,959	3,991
Repayments of long-term debt	(543)	(3,045)	(39)
Repurchases of common stock	(8,000)	(6,880)	(7,000)
Proceeds from sales of common stock	255	218	228
Cash dividends	(4,212)	(3,404)	(3,031)
Other financing activities	(211)	(78)	4
Net cash used in financing activities	(8,870)	(7,870)	(5,787)
Change in cash and cash equivalents	933	330	604
Effect of exchange rate changes on cash and cash equivalents	124	(8)	(111)
Cash and cash equivalents at beginning of year	2,538	2,216	1,723
Cash and cash equivalents at end of year	$ 3,595	$ 2,538	$ 2,216
Supplemental Disclosures:			
Cash paid for interest, net of interest capitalized	$ 991	$ 924	$ 874
Cash paid for income taxes	4,732	4,623	3,853
Non-cash capital expenditures	150	179	165

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

The Home Depot, Inc., together with its subsidiaries (the "Company," "Home Depot," "we," "our" or "us"), is a home improvement retailer that sells a wide assortment of building materials, home improvement products, lawn and garden products, and décor items and provides a number of services, in stores and online. We operate in the U.S., including the Commonwealth of Puerto Rico and the territories of the U.S. Virgin Islands and Guam, Canada, and Mexico.

Consolidation and Presentation

Our consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Certain amounts in prior fiscal years have been reclassified to conform with the presentation adopted in the current fiscal year. Our fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31. Fiscal 2017, 2016, and 2015 each included 52 weeks.

Use of Estimates

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses in preparing these financial statements in conformity with GAAP. Actual results could differ from these estimates.

Cash Equivalents

We consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. Our cash equivalents are carried at fair market value and consist primarily of money market funds.

Receivables

The components of receivables, net, follow.

in millions	January 28, 2018	January 29, 2017
Card receivables	$ 734	$ 729
Rebate receivables	609	625
Customer receivables	261	216
Other receivables	348	459
Receivables, net	$ 1,952	$ 2,029

Card receivables consist of payments due from financial institutions for the settlement of credit card and debit card transactions. Rebate receivables represent amounts due from vendors for volume and co-op advertising rebates. Receivables due from customers relate to credit extended directly to customers by certain subsidiaries in the ordinary course of business. The valuation reserve related to accounts receivable was not material to our consolidated financial statements at the end of fiscal 2017 or 2016.

Merchandise Inventories

The majority of our merchandise inventories are stated at the lower of cost (first-in, first-out) or market, as determined by the retail inventory method. As the inventory retail value is adjusted regularly to reflect market conditions, the inventory valued using the retail method approximates the lower of cost or market. Certain subsidiaries, including retail operations in Canada and Mexico, and distribution centers, record merchandise inventories at the lower of cost or market, as determined by a cost method. These merchandise inventories represent approximately 30% of the total merchandise inventories balance. We evaluate the inventory valued using a cost method at the end of each quarter to ensure that it is carried at the lower of cost or net realizable value. The valuation allowance for merchandise inventories valued under a cost method was not material to our consolidated financial statements at the end of fiscal 2017 or 2016.

Independent physical inventory counts or cycle counts are taken on a regular basis in each store and distribution center to ensure that amounts reflected in merchandise inventories are properly stated. Shrink (or in the case of excess inventory, "swell") is the difference between the recorded amount of inventory and the physical inventory. We calculate shrink based on actual inventory losses occurring as a result of physical inventory counts during each fiscal period and estimated inventory losses occurring between physical inventory counts. The estimate for shrink occurring in the interim period between physical inventory counts is calculated on a store-specific basis based on recent shrink results and current trends in the business.

Property and Equipment, including Capitalized Lease Assets

Buildings, furniture, fixtures, and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized using the straight-line method over the original term of the lease or the useful life of the improvement, whichever is shorter. The estimated useful lives of our property and equipment follow.

	Life
Buildings	5 – 45 years
Furniture, fixtures and equipment	2 – 20 years
Leasehold improvements	5 – 45 years

We capitalize certain costs related to the acquisition and development of software and amortize these costs using the straight-line method over the estimated useful life of the software, which is three to six years. Certain development costs not meeting the criteria for capitalization are expensed as incurred.

We evaluate our long-lived assets each quarter for indicators of potential impairment. Indicators of impairment include current period losses combined with a history of losses, our decision to relocate or close a store or other location before the end of its previously estimated useful life, or when changes in other circumstances indicate the carrying amount of an asset may not be recoverable. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The assets of a store with indicators of impairment are evaluated for recoverability by comparing its undiscounted future cash flows with its carrying value. If the carrying value is greater than the undiscounted future cash flows, we then measure the asset's fair value to determine whether an impairment loss should be recognized. If the resulting fair value is less than the carrying value, an impairment loss is recognized for the difference between the carrying value and the estimated fair value. Impairment losses are recorded as a component of SG&A. When a leased location closes, we also recognize, in SG&A, the net present value of future lease obligations less estimated sublease income. Impairments and lease obligation costs on closings and relocations were not material to our consolidated financial statements in fiscal 2017, 2016, or 2015.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired. We do not amortize goodwill, but assess the recoverability of goodwill in the third quarter of each fiscal year, or more often if indicators warrant, by determining whether the fair value of each reporting unit supports its carrying value. Each fiscal year, we may assess qualitative factors to determine whether it is more likely than not that the fair value of each reporting unit is less than its carrying amount as a basis for determining whether it is necessary to complete quantitative impairment assessments, with a quantitative assessment completed at least once every three years. We completed our last quantitative assessment in fiscal 2016.

In fiscal 2017, we completed our annual assessment of the recoverability of goodwill for the U.S., Canada, and Mexico reporting units. We performed qualitative assessments, concluding that the fair value of the reporting units substantially exceeded the respective reporting unit's carrying value, including goodwill. As a result, there were no impairment charges related to goodwill for fiscal 2017, 2016, or 2015.

Changes in the carrying amount of our goodwill follow.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Goodwill, balance at beginning of year	$ 2,093	$ 2,102	$ 1,353
Acquisitions	164	—	788
Other [(1)]	18	(9)	(39)
Goodwill, balance at end of year	$ 2,275	$ 2,093	$ 2,102

(1) Primarily reflects the impact of foreign currency translation.

We amortize the cost of other intangible assets over their estimated useful lives, which range up to 12 years, unless such lives are deemed indefinite. Intangible assets with indefinite lives are tested in the third quarter of each fiscal year for impairment, or more often if indicators warrant. Intangible assets are included in other assets.

Debt

Any premiums or discounts, as the case may be, associated with an issuance of long-term debt are recorded as a direct addition or deduction to the carrying value of the related senior notes and amortized over the term of those notes using the effective interest rate method. Debt issuance costs associated with an issuance of long-term debt are recorded as a direct deduction to the carrying value of the related senior notes and amortized over the term of those notes using the effective interest rate method.

Derivatives

We use derivative financial instruments in the management of our interest rate exposure on long-term debt and our exposure to foreign currency fluctuations. For derivatives that are designated as hedges, changes in their fair values that are considered effective are either accounted for in earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings, depending on the nature of the hedge. Any ineffective portion of a derivative's change in fair value is immediately recognized in earnings. Financial instruments that do not qualify for hedge accounting are recorded at fair value with unrealized gains or losses reported in earnings. All qualifying derivative financial instruments are recognized at their fair values in either assets or liabilities at the balance sheet date and are reported on a gross basis. The fair values of our derivative financial instruments are discussed in Note 4 and Note 7.

Insurance

We are self-insured for certain losses related to general liability (including product liability), workers' compensation, employee group medical, and automobile claims. We recognize the expected ultimate cost for claims incurred (undiscounted) at the balance sheet date as a liability. The expected ultimate cost for claims incurred is estimated based upon analysis of historical data and actuarial estimates. We also maintain network security and privacy liability insurance coverage to limit our exposure to losses such as those that may be caused by a significant compromise or breach of our data security. Insurance related expenses are included in SG&A.

Treasury Stock

Treasury stock is reflected as a reduction of stockholders' equity at cost. We use the weighted-average purchase cost to determine the cost of treasury stock that is reissued.

Revenues

We recognize revenue, net of estimated returns and sales tax, at the time the customer takes possession of merchandise or when a service is performed. The liability for sales returns, including the impact to gross profit, is estimated based on historical return levels.

Net sales include services revenue generated through a variety of installation, home maintenance, and professional service programs. In these programs, the customer selects and purchases material for a project, and we provide or arrange professional installation. These programs are offered through our stores and in-home sales programs. Under certain programs, when we provide or arrange the installation of a project and the subcontractor provides material as part of the installation, both the material and labor are included in services revenue. We recognize this revenue when the service for the customer is complete.

When we receive payment from customers before the customer has taken possession of the merchandise or the service has been performed, the amount received is recorded as deferred revenue until the sale or service is complete. We also record deferred revenue for the sale of gift cards and recognize this revenue upon the redemption of gift cards in net sales. Gift card breakage income is recognized based upon historical redemption patterns and represents the balance of gift cards for which we believe the likelihood of redemption by the customer is remote.

Gift card breakage income, which is recognized as a reduction to SG&A, follows.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Gift card breakage income	$ 39	$ 34	$ 27

Cost of Sales

Cost of sales includes the actual cost of merchandise sold and services performed; the cost of transportation of merchandise from vendors to our distribution network, stores, or customers; shipping and handling costs from our stores or distribution network to customers; the operating cost and depreciation of our sourcing and distribution network and online fulfillment centers; and the cost of deferred interest programs offered through our PLCC programs.

Cost of Credit

We have agreements with third-party service providers who directly extend credit to customers, manage our PLCC program, and own the related receivables. We have evaluated the third-party entities holding the receivables under the program and concluded that they should not be consolidated. The agreement with the primary third-party service provider for our PLCC program expires in 2028, with us having the option, but no obligation, to purchase the receivables at the end of the agreement. The deferred interest charges we incur for our deferred financing programs offered to our customers are included in cost of sales. The interchange fees charged to us for our customers' use of the cards and any profit sharing with the third-party service providers are included in SG&A. The sum of these three components is referred to as the cost of credit of the PLCC program.

Vendor Allowances

Vendor allowances primarily consist of volume rebates that are earned as a result of attaining certain purchase levels and co-op advertising allowances for the promotion of vendors' products that are typically based on guaranteed minimum amounts with additional amounts being earned for attaining certain purchase levels. These vendor allowances are accrued as earned, with those allowances received as a result of attaining certain purchase levels accrued over the incentive period based on estimates of purchases.

Volume rebates and certain co-op advertising allowances earned are initially recorded as a reduction in merchandise inventories and a subsequent reduction in cost of sales when the related product is sold. Certain co-op advertising allowances that are reimbursements of specific, incremental, and identifiable costs incurred to promote vendors' products are recorded as an offset against advertising expense in SG&A and were as follows:

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Specific, incremental, and identifiable co-op advertising allowances	$ 198	$ 166	$ 129

Advertising Expense

Television and radio advertising production costs, along with media placement costs, are expensed when the advertisement first appears. Gross advertising expense is included in SG&A. Certain co-op advertising allowances are recorded as an offset against advertising expense.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Gross advertising expense	$ 995	$ 955	$ 868

Income Taxes

Income taxes are accounted for under the asset and liability method. We provide for federal, state, and foreign income taxes currently payable, as well as for those deferred due to timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates is recognized as income or expense in the period that includes the enactment date.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

We file a consolidated U.S. federal income tax return which includes certain eligible subsidiaries. Non-U.S. subsidiaries and certain U.S. subsidiaries, which are consolidated for financial reporting purposes, are not eligible to be included in our consolidated U.S. federal income tax return. Separate provisions for income taxes have been determined for these entities. For unremitted earnings of our non-U.S. subsidiaries, we are required to make an assertion regarding reinvestment or repatriation for tax purposes. For any earnings that we do not make a permanent reinvestment assertion, we recognize a provision for deferred income taxes. For earnings where we have made a permanent reinvestment assertion, no provision is recognized. See Note 5 for further discussion.

Comprehensive Income

Comprehensive income includes net earnings adjusted for certain gains and losses that are excluded from net earnings under GAAP, which consists primarily of foreign currency translation adjustments.

Foreign Currency Translation

Assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange on the last day of the reporting period. Revenues and expenses are translated using average exchange rates for the period and equity transactions are translated using the actual rate on the day of the transaction.

Recently Adopted Accounting Pronouncements

ASU No. 2016-09. In the first quarter of fiscal 2017, we 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 our consolidated statements of cash flows in the period in which they occur. Previously, these amounts were reflected as a financing activity. Cash paid to tax authorities when directly withholding shares for tax withholding purposes will continue to be classified as a financing activity in our consolidated statements of cash flows. Stock-based compensation expense will continue to reflect estimated forfeitures of share-based awards. We have adopted the applicable provisions of ASU No. 2016-09 prospectively.

As a result of the adoption of ASU No. 2016-09, we recognized $106 million of excess tax benefits related to share-based payment awards in our provision for income taxes during fiscal 2017. The recognition of these benefits contributed $0.09 to diluted earnings per share in fiscal 2017.

Recently Issued Accounting Pronouncements

ASU No. 2018-02. In February 2018, the FASB issued ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which allows for an optional reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects as a result of the Tax Act. ASU No. 2018-02 is effective for us in the first quarter of fiscal 2019 and early adoption is permitted. Two transition methods are available: at the beginning of the period of adoption, or retrospective to each period in which the income tax effects of the Tax Act related to items remaining in accumulated other comprehensive income are recognized. We are evaluating the effect that ASU No. 2018-02 will have on our consolidated financial statements and related disclosures.

ASU No. 2017-12. In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," which amends the hedge accounting recognition and presentation requirements. ASU No. 2017-12 eliminates the concept of recognizing periodic hedge ineffectiveness for cash flow and net investment hedges and allows an entity to apply the shortcut method to partial-term fair value hedges of interest rate risk. ASU No. 2017-12 is effective for us in the first quarter of fiscal 2019. Early adoption is permitted in any interim period after issuance of this update. We are evaluating the effect that ASU No. 2017-12 will have on our consolidated financial statements and related disclosures.

ASU No. 2017-04. In January 2017, the FASB issued ASU No. 2017-04, "Intangibles–Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which simplifies how an entity is required to test goodwill for impairment. The amendments in ASU No. 2017-04 require goodwill impairment to be measured using the difference between the carrying amount and the fair value of the reporting unit and require the loss recognized to not exceed the total amount of goodwill allocated to that reporting unit. ASU No. 2017-04 should be applied on a prospective basis and is effective for our annual goodwill impairment tests beginning in the first quarter of fiscal 2020. Early adoption is permitted. We have evaluated the effect that ASU No. 2017-04 will have on our consolidated financial statements and related disclosures and noted no material impact.

ASU No. 2016-16. In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," which requires an entity to recognize the income tax consequences of an intercompany transfer of assets other than inventory when the transfer occurs. An entity will continue to recognize the income tax consequences of an intercompany transfer of inventory when the inventory is sold to a third party. ASU No. 2016-16 is effective for us in the first quarter of fiscal 2018 using a modified retrospective approach. We are evaluating the effect that ASU No. 2016-16 will have on our consolidated financial statements and related disclosures.

ASU No. 2016-02. In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires an entity that is a lessee to recognize the assets and liabilities arising from leases on the balance sheet. ASU No. 2016-02 also requires disclosures about the amount, timing, and uncertainty of cash flows arising from leases. ASU No. 2016-02 is effective for us in the first quarter of fiscal 2019 using a modified retrospective approach. Early adoption is permitted.

We are evaluating and planning for the adoption and implementation of ASU No. 2016-02. We believe that ASU No. 2016-02 will have a material impact on our financial position, as a result of the requirement to recognize right-of-use assets and lease liabilities on our consolidated balance sheets. The impact to our results of operations is being evaluated, and we do not believe there will be a material impact to our cash flows upon adoption of ASU No. 2016-02.

ASU No. 2014-09. In May 2014, the FASB issued a new ASU related to revenue recognition. Under ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, ASU No. 2014-09 requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU No. 2014-09 permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). ASU No. 2014-09 is effective for us in the first quarter of fiscal 2018.

We will adopt ASU No. 2014-09 in the first quarter of fiscal 2018 using the modified retrospective method. This adoption will not materially impact our consolidated financial statements or related disclosures. Under ASU No. 2014-09, we will change the presentation of certain expenses and cost reimbursements associated with our PLCC program, certain expenses related to the sale of our gift cards to customers, and gift card breakage income. We will also change our recognition of gift card breakage income to be recognized proportionately as redemption occurs, rather than based on historical redemption patterns. We are in the process of implementing changes to our processes, controls and systems in support of our adoption of ASU No. 2014-09.

Recent accounting pronouncements pending adoption not discussed above are either not applicable or are not expected to have a material impact on us.

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2. SEGMENT REPORTING

We currently conduct our retail operations in the U.S., Canada, and Mexico, each of which represents one of our three operating segments. Our operating segments reflect the way in which internally-reported financial information is used to make decisions and allocate resources. For disclosure purposes, we aggregate these three operating segments into one reportable segment due to their similar operating and financial characteristics and how the business is managed.

The assets of each of our operating segments primarily consist of net property and equipment and merchandise inventories. Long-lived assets, classified by geography, follow.

in millions	January 28, 2018	January 29, 2017	January 31, 2016
Long-lived assets – in the U.S.	$ 19,526	$ 19,519	$ 19,846
Long-lived assets – outside the U.S.	2,549	2,395	2,345
Total long-lived assets	$ 22,075	$ 21,914	$ 22,191

No sales to an individual customer or country other than the U.S. accounted for more than 10% of revenue during any of the last three fiscal years. Net sales, classified by geography, follow.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Net sales – in the U.S.	$ 92,413	$ 86,615	$ 80,550
Net sales – outside the U.S.	8,491	7,980	7,969
Net sales	$ 100,904	$ 94,595	$ 88,519

Net sales by products and services follow.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Net sales – products (1)	$ 95,956	$ 90,028	$ 84,130
Net sales – services (1)	4,948	4,567	4,389
Net sales	$ 100,904	$ 94,595	$ 88,519

(1) Certain sales were reclassified from products to services in fiscal 2017. Prior year amounts have been reclassified to conform with the current year presentation.

Major product lines and the related merchandising departments (and related services) follow.

Major Product Line	Merchandising Departments
Building Materials	Building Materials, Electrical, Lighting, Lumber, Millwork, and Plumbing
Décor	Appliances, Décor, Flooring, Kitchen and Bath, and Paint
Hardlines	Hardware, Indoor Garden, Outdoor Garden, and Tools

Net sales by merchandising department (and related services) follow.

dollars in millions	Fiscal 2017 Net Sales	Fiscal 2017 % of Net Sales	Fiscal 2016 Net Sales	Fiscal 2016 % of Net Sales	Fiscal 2015 Net Sales	Fiscal 2015 % of Net Sales
Appliances	$ 8,147	8.1	$ 7,362	7.8	$ 6,539	7.4
Building Materials	7,342	7.3	6,774	7.2	6,416	7.2
Décor	3,057	3.0	2,906	3.1	2,730	3.1
Electrical (1)	5,037	5.0	4,561	4.8	4,291	4.8
Flooring	7,078	7.0	6,477	6.8	6,215	7.0
Hardware	5,891	5.8	5,629	6.0	5,296	6.0
Indoor Garden	9,639	9.6	9,204	9.7	8,227	9.3
Kitchen and Bath	7,377	7.3	7,184	7.6	6,909	7.8
Lighting (1)	4,409	4.4	4,423	4.7	4,249	4.8
Lumber	7,790	7.7	6,828	7.2	6,284	7.1
Millwork	5,382	5.3	5,139	5.4	4,937	5.6
Outdoor Garden	7,030	7.0	6,789	7.2	6,505	7.3
Paint	7,990	7.9	7,666	8.1	7,497	8.5
Plumbing	7,356	7.3	6,985	7.4	6,364	7.2
Tools	7,379	7.3	6,668	7.0	6,060	6.8
Total	$ 100,904	100.0 %	$ 94,595	100.0 %	$ 88,519	100.0 %

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

(1) Certain products were reclassified from Electrical to Lighting in fiscal 2017. Prior year amounts have been reclassified to conform with the current year presentation.

3. PROPERTY AND LEASES

Net Property and Equipment

The components of net property and equipment follow.

in millions	January 28, 2018	January 29, 2017
Land	$ 8,352	$ 8,207
Buildings	18,073	17,772
Furniture, fixtures and equipment	11,506	11,020
Leasehold improvements	1,637	1,519
Construction in progress	538	739
Capital leases	1,308	1,169
Property and equipment, at cost	41,414	40,426
Less accumulated depreciation and amortization	19,339	18,512
Net property and equipment	$ 22,075	$ 21,914

Leases

We lease certain retail locations, office space, warehouse and distribution space, equipment, and vehicles. While most of the leases are operating leases, certain locations and equipment are leased under capital leases. As leases approach maturity, we consider various factors such as market conditions and the terms of any renewal options that may exist to determine whether we will renew or replace the lease. Short-term and long-term obligations for capital leases are included in the applicable long-term debt category based on maturity.

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Assets under capital leases (net of amortization) recorded in net property and equipment follow.

in millions	January 28, 2018	January 29, 2017
Capital leases, net	$ 821	$ 730

Certain lease agreements include escalating rents over the lease terms. Real estate taxes, insurance, maintenance, and operating expenses applicable to the leased property are our obligations under the lease agreements. We expense rent on a straight-line basis over the lease term, which commences on the date we have the right to control the property. The cumulative expense recognized on a straight-line basis in excess of the cumulative payments is included in other accrued expenses and other long-term liabilities.

Our total rent expense follows.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Total rent expense	$ 1,053	$ 984	$ 922

The approximate future minimum lease payments under capital and operating leases at January 28, 2018 follow.

in millions	Operating Leases	Capital Leases
Fiscal 2018	$ 921	$ 147
Fiscal 2019	869	142
Fiscal 2020	786	156
Fiscal 2021	696	132
Fiscal 2022	580	132
Thereafter through fiscal 2097	3,286	1,044
	$ 7,138	1,753
Less imputed interest		769
Net present value of capital lease obligations		984
Less current installments		52
Long-term capital lease obligations, excluding current installments		$ 932

4. DEBT AND DERIVATIVE INSTRUMENTS

Short-Term Debt

In December 2017, we increased the borrowing capacity of our commercial paper programs from $2.0 billion to $3.0 billion. All of our short-term borrowings in fiscal 2017 and fiscal 2016 were under these commercial paper programs. In connection with these programs, we have back-up credit facilities with a consortium of banks for borrowings up to $3.0 billion. In December 2017, we replaced our five-year $2.0 billion credit facility that was scheduled to expire in December 2019, with a new, substantially identical five-year $2.0 billion credit facility that expires in December 2022. In addition, we added a separate 364-day $1.0 billion credit facility that expires in December 2018.

Certain information on our commercial paper programs follows.

dollars in millions	January 28, 2018	January 29, 2017
Weighted average interest rate	1.45 %	0.63 %
Balance outstanding at fiscal year-end	$ 1,559	$ 710
Maximum amount outstanding at any month-end	1,559	710
Average daily short-term borrowings	173	51

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Long-Term Debt

Components of our long-term debt follow.

in millions	January 28, 2018	January 29, 2017
Floating rate senior notes due September 2017; interest payable quarterly	$ —	$ 499
2.25% Senior notes due September 2018; interest payable semi-annually	1,137	1,151
2.00% Senior notes due June 2019; interest payable semi-annually	998	996
Floating rate senior notes due June 2020; interest payable quarterly	499	—
1.80% Senior notes due June 2020; interest payable semi-annually	748	—
3.95% Senior notes due September 2020; interest payable semi-annually	501	509
4.40% Senior notes due April 2021; interest payable semi-annually	998	997
2.00% Senior notes due April 2021; interest payable semi-annually	1,343	1,341
2.625% Senior notes due June 2022; interest payable semi-annually	1,243	1,241
2.70% Senior notes due April 2023; interest payable semi-annually	996	996
3.75% Senior notes due February 2024; interest payable semi-annually	1,093	1,092
3.35% Senior notes due September 2025; interest payable semi-annually	995	994
3.00% Senior notes due April 2026; interest payable semi-annually	1,287	1,286
2.125% Senior notes due September 2026; interest payable semi-annually	986	984
2.80% Senior notes due September 2027; interest payable semi-annually	993	—
5.875% Senior notes due December 2036; interest payable semi-annually	2,949	2,947
5.40% Senior notes due September 2040; interest payable semi-annually	495	495
5.95% Senior notes due April 2041; interest payable semi-annually	988	988
4.20% Senior notes due April 2043; interest payable semi-annually	988	988
4.875% Senior notes due February 2044; interest payable semi-annually	978	978
4.40% Senior notes due March 2045; interest payable semi-annually	977	976
4.25% Senior notes due April 2046; interest payable semi-annually	1,584	1,584
3.90% Senior notes due June 2047; interest payable semi-annually	738	—
3.50% Senior notes due September 2056; interest payable semi-annually	971	971
Capital lease obligations; payable in varying installments through January 31, 2055	984	878
Total long-term debt	25,469	22,891
Less current installments of long-term debt	1,202	542
Long-term debt, excluding current installments	$ 24,267	$ 22,349

September 2017 Issuance. In September 2017, we issued a single tranche of senior notes.

- The tranche consisted of $1.0 billion of 2.80% senior notes due September 14, 2027 (the "2027 notes") at a discount of $3 million.
- Issuance costs totaled $6 million.

Interest on the 2027 notes is due semi-annually on March 14 and September 14 of each year, beginning March 14, 2018. The net proceeds of the 2027 notes were used to repay our floating rate notes due September 15, 2017, and for general corporate purposes, including repurchases of our common stock.

June 2017 Issuance. In June 2017, we issued three tranches of senior notes.

- The first tranche consisted of $500 million of floating rate senior notes due June 5, 2020 (the "2020 floating rate notes"). The 2020 floating rate notes bear interest at a variable rate determined quarterly equal to the three-month LIBOR plus 15 basis points.
- The second tranche consisted of $750 million of 1.80% senior notes due June 5, 2020 (the "2020 notes") at a discount of $1 million.

- The third tranche consisted of $750 million of 3.90% senior notes due June 15, 2047 (the "2047 notes") at a discount of $5 million (together with the 2020 floating rate notes and 2020 notes, the "June 2017 issuance").
- Issuance costs totaled $12 million.

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. The net proceeds of the June 2017 issuance were used for general corporate purposes, including repurchases of our common stock.

September 2016 Issuance. In September 2016, we issued two tranches of senior notes.

- The first tranche consisted of $1.0 billion of 2.125% senior notes due September 15, 2026 (the "September 2026 notes") at a discount of $11 million.
- The second tranche consisted of $1.0 billion of 3.50% senior notes due September 15, 2056 (the "2056 notes") at a discount of $19 million (together with the September 2026 notes, the "September 2016 issuance").
- Issuance costs totaled $16 million.

Interest on the September 2026 notes and the 2056 notes is due semi-annually on March 15 and September 15 of each year, beginning March 15, 2017. The net proceeds of the September 2016 issuance were used for general corporate purposes, including repurchases of our common stock.

February 2016 Issuance. In February 2016, we issued three tranches of senior notes.

- The first tranche consisted of $1.35 billion of 2.00% senior notes due April 1, 2021 (the "2021 notes") at a discount of $5 million;
- The second tranche consisted of $1.3 billion of 3.00% senior notes due April 1, 2026 (the "April 2026 notes") at a discount of $8 million.
- The third tranche consisted of $350 million of 4.25% senior notes due April 1, 2046 (the "2046 notes") at a premium of $2 million (together with the 2021 notes and the April 2026 notes, the "February 2016 issuance"). The 2046 notes form a single series with our $1.25 billion of 4.25% senior notes due April 1, 2046 that were issued in May 2015, and have the same terms. The aggregate principal amount outstanding of our senior notes due April 1, 2046 is $1.6 billion.
- Issuance costs totaled $17 million.

Interest on the 2021 notes and the April 2026 notes is due semi-annually on April 1 and October 1 of each year, beginning October 1, 2016. Interest on the 2046 notes is due semi-annually on April 1 and October 1 of each year, beginning April 1, 2016, with interest accruing from October 1, 2015. The net proceeds of the February 2016 issuance were used to repay our 5.40% senior notes due March 1, 2016.

Redemption. All of our senior notes, other than our outstanding floating rate notes, may be redeemed by us 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 us to redeem those notes at 101% of the aggregate principal amount of the notes plus accrued interest up to the redemption date. We are generally not limited under the indentures governing the notes in our 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 our liquidity or capital resources.

Maturities of Long-Term Debt. Our long-term debt maturities, excluding capital leases, follow.

in millions	Principal
Fiscal 2018	$ 1,150
Fiscal 2019	1,000
Fiscal 2020	1,750
Fiscal 2021	2,350
Fiscal 2022	1,250
Thereafter	17,250

Derivative Instruments

At both January 28, 2018 and January 29, 2017, we had outstanding cross currency swap agreements with a combined notional amount of $626 million, accounted for as cash flow hedges, to hedge foreign currency fluctuations on certain intercompany debt. The approximate fair values of these agreements were assets of $233 million at January 28, 2018 and $258 million at January 29, 2017, which were the estimated amounts we would have received to settle the agreements, and were included in other assets.

We had outstanding interest rate swap agreements with combined notional amounts of $1.25 billion at January 28, 2018 and $1.0 billion at January 29, 2017. These agreements were accounted for as fair value hedges that swap fixed for variable rate interest to hedge changes in the fair values of certain senior notes. The fair values of these agreements were not material at January 28, 2018 and January 29, 2017, respectively.

At January 28, 2018, we had outstanding foreign currency forward contracts with a combined notional amount of $300 million, accounted for as net investment hedges, that hedge against foreign currency exposure on our net investment in certain subsidiaries. At January 28, 2018, the fair values of these agreements were not material.

5. INCOME TAXES

Our earnings before the provision for income taxes follow.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
U.S.	$ 12,682	$ 11,568	$ 10,207
Foreign	1,016	923	814
Total	$ 13,698	$ 12,491	$ 11,021

Our provision for income taxes follows.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Current:			
Federal	$ 4,128	$ 3,870	$ 3,228
State	499	462	466
Foreign	331	315	296
Total current	4,958	4,647	3,990
Deferred:			
Federal	(67)	(102)	21
State	89	13	10
Foreign	88	(24)	(9)
Total deferred	110	(113)	22
Provision for income taxes	$ 5,068	$ 4,534	$ 4,012

Our combined federal, state, and foreign effective tax rates follow.

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Combined federal, state, and foreign effective tax rates	37.0 %	36.3 %	36.4 %

The reconciliation of our provision for income taxes at the federal statutory rates of approximately 34% for fiscal 2017, 35% for fiscal 2016, and 35% for fiscal 2015 to the actual tax expense follows.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Income taxes at federal statutory rate	$ 4,648	$ 4,372	$ 3,857
State income taxes, net of federal income tax benefit	369	309	309
Tax on mandatory deemed repatriation	400	—	—
Other, net	(349)	(147)	(154)
Total	$ 5,068	$ 4,534	$ 4,012

On December 22, 2017, the U.S. enacted comprehensive tax legislation with the Tax Act, making broad and complex changes to U.S. tax law, including lowering the U.S. corporate income tax rate to 21%, transitioning to a modified territorial system, and providing for current expensing of certain qualifying capital expenditures. As a result of enactment of the Tax Act, our fiscal 2017 tax provision reflects additional net tax expense of $127 million.

As part of the transition to the new territorial tax system, the Tax Act imposes a one-time tax on deemed repatriation of historical earnings of foreign subsidiaries. For fiscal 2017, these impacts resulted in a provisional charge in the fourth quarter of approximately $400 million, comprising U.S. repatriation taxes, foreign withholding taxes, and state taxes.

The lower corporate income tax rate of 21% is effective January 1, 2018, resulting in a U.S. statutory federal tax rate of approximately 34% for fiscal 2017, and 21% for subsequent fiscal years, which provided a benefit to our fiscal 2017 tax provision of approximately $126 million.

The reduction of the U.S. corporate tax rate requires a remeasurement of our U.S. deferred tax assets and liabilities to the lower federal base rate of 21%. This resulted in a provisional benefit of $147 million for fiscal 2017.

The Tax Act also added a new provision for a tax on global intangible low-taxed income (“GILTI”). Due to the complexity of the new tax rules, we are considering available accounting policy alternatives to adopt, to either record the U.S. income tax effect of future GILTI inclusions in the period in which they arise or establish deferred taxes with respect to the expected future tax liabilities associated with future GILTI inclusions. We have not made an accounting policy election and will do so after we complete an analysis of those provisions.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. In accordance with SAB 118, we were able to make reasonable estimates of certain effects and, therefore, recorded provisional amounts for the remeasurement of deferred tax assets and liabilities and the tax on the mandatory deemed repatriation of foreign earnings.

For the remeasurement of our deferred tax assets and liabilities, we have recorded a provisional benefit of $147 million for the year ended January 28, 2018. While we are able to make a reasonable estimate of the impact of the reduction in corporate rate, it may be affected by other factors, including, but not limited to, changes to our calculation of deemed repatriation of deferred foreign income and changes to the current year deferred tax balance estimates.

To determine the amount of the income tax on mandatory deemed repatriation of foreign earnings, we must determine, in addition to other factors, the amount of post-1986 earnings and profits ("E&P") of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. We are able to make a reasonable estimate of the tax and recorded a provisional obligation of $400 million. However, we are continuing to gather additional information to more precisely compute the amount of the tax.

We expect additional regulatory guidance and technical clarifications from the U.S. Department of the Treasury and IRS within the next 12 months. Any subsequent adjustment to these amounts will be recorded to income tax expense from continuing operations in the quarter of fiscal year 2018 in which the analysis is complete.

The tax effects of temporary differences that give rise to significant portions of our deferred tax assets and deferred tax liabilities follow.

in millions	January 28, 2018	January 29, 2017
Assets:		
Deferred compensation	$ 185	$ 284
Accrued self-insurance liabilities	295	440
State income taxes	109	152
Non-deductible reserves	220	328
Net operating losses	19	33
Other	124	268
Total deferred tax assets	952	1,505
Valuation allowance	—	(3)
Total deferred tax assets after valuation allowance	952	1,502
Liabilities:		
Merchandise inventories	(9)	(64)
Property and equipment	(770)	(1,128)
Goodwill and other intangibles	(243)	(368)
Other	(251)	(147)
Total deferred tax liabilities	(1,273)	(1,707)
Net deferred tax liabilities	$ (321)	$ (205)

Our noncurrent deferred tax assets and noncurrent deferred tax liabilities, netted by tax jurisdiction, follow.

in millions	January 28, 2018	January 29, 2017
Other assets	$ 119	$ 91
Deferred income taxes	(440)	(296)
Net deferred tax liabilities	$ (321)	$ (205)

We believe that the realization of the deferred tax assets is more likely than not, based upon the expectation that we will generate the necessary taxable income in future periods.

At January 28, 2018, we had federal, state, and foreign net operating loss carryforwards available to reduce future taxable income, expiring at various dates beginning in 2018 to 2037. We have concluded that it is more likely than not that the tax benefits related to the federal and state net operating losses will be realized. As of January 29, 2017, a valuation allowance of $3 million had been provided to reduce the deferred tax asset related to foreign net operating losses to an amount that is more likely than not to be realized. As of January 28, 2018, we are no longer active in the foreign jurisdictions in which the valuation allowance relates; therefore, the valuation allowance of $3 million was released this year when the related deferred tax asset was written off.

We intend to reinvest substantially all of the unremitted earnings of our non-U.S. subsidiaries in excess of working capital and strategic requirements and postpone their remittance indefinitely. Accordingly, no provision for withholding taxes was recorded on these unremitted earnings in the accompanying consolidated statements of earnings. It is impracticable for us to determine the amount of unrecognized deferred tax liabilities on these indefinitely reinvested earnings. We have reevaluated our investment position with respect to certain cash balances and we do not intend to indefinitely reinvest cash in excess of working capital and strategic requirements. Accordingly, we have recorded a provisional deferred tax expense for these unremitted earnings in the accompanying consolidated statements of earnings.

Our income tax returns are routinely examined by domestic and foreign tax authorities. For fiscal years 2005 through 2009, a transfer pricing issue remains open pending negotiations between the U.S. and Mexican tax authorities. Our U.S. federal tax returns for fiscal years 2010 through 2012 are currently under examination by the IRS. During fiscal 2016, the IRS issued a proposed adjustment relating to transfer pricing between our entities in the U.S. and China for fiscal years 2010 through 2012. We intend to defend our position using all available remedies including bi-lateral relief. There are also ongoing U.S. state and local and other foreign audits covering fiscal years 2005 through 2015. We do not expect the results from any ongoing income tax audit to have a material impact on our consolidated financial condition, results of operations, or cash flows.

Over the next twelve months, it is reasonably possible that the resolution of federal and state tax examinations could reduce our unrecognized tax benefits by $187 million. Final settlement of these audit issues may result in payments that are more or less than this amount, but we do not anticipate the resolution of these matters will result in a material change to our consolidated financial condition or results of operations.

Reconciliations of the beginning and ending amount of our gross unrecognized tax benefits follow.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Unrecognized tax benefits balance at beginning of fiscal year	$ 659	$ 689	$ 765
Additions based on tax positions related to the current year	74	147	169
Additions for tax positions of prior years	15	14	126
Reductions for tax positions of prior years	(93)	(161)	(350)
Reductions due to settlements	(1)	(16)	(14)
Reductions due to lapse of statute of limitations	(17)	(14)	(7)
Unrecognized tax benefits balance at end of fiscal year	$ 637	$ 659	$ 689

Unrecognized tax benefits that if recognized would affect our annual effective income tax rate on net earnings were $483 million at January 28, 2018; $382 million at January 29, 2017; and $382 million at January 31, 2016.

Net adjustments to accruals for interest and penalties associated with uncertain tax positions resulted in expenses of $24 million in fiscal 2017, $20 million in fiscal 2016, and $5 million in fiscal 2015. Interest and penalties are included in interest expense and SG&A, respectively.

Our total accrued interest and penalties follow.

in millions	January 28, 2018	January 29, 2017
Total accrued interest and penalties	$ 134	$ 109

6. STOCKHOLDERS' EQUITY

Stock Rollforward

A reconciliation of the number of shares of our common stock follows.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Common stock:			
Balance at beginning of year	1,776	1,772	1,768
Shares issued under employee stock plans	4	4	4
Balance at end of year	1,780	1,776	1,772
Treasury stock:			
Balance at beginning of year	(573)	(520)	(461)
Repurchases of common stock	(49)	(53)	(59)
Balance at end of year	(622)	(573)	(520)
Shares outstanding at end of year	1,158	1,203	1,252

Accelerated Share Repurchase Agreements. We enter into ASR agreements from time to time with third-party financial institutions to repurchase shares of our common stock. Under an ASR agreement, we pay a specified amount to the financial institution and receive an initial delivery of shares. This initial delivery of shares represents the minimum number of shares that we 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 our common stock over the term of the 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 terms of each ASR agreement entered into during the last three fiscal years, structured as outlined above, follow (in millions).

Agreement Date	Settlement Date	Agreement Amount	Initial Shares Delivered	Additional Shares Delivered	Total Shares Delivered
Q1 2015	Q1 2015	$ 850	7.0	0.5	7.5
Q2 2015	Q3 2015	1,500	12.0	1.3	13.3
Q3 2015	Q4 2015	1,375	10.1	1.3	11.4
Q4 2015	Q4 2015	1,500	9.7	1.7	11.4
Q2 2017	Q2 2017	1,650	9.7	1.1	10.8
Q3 2017	Q4 2017	1,200	6.7	0.7	7.4

7. FAIR VALUE MEASUREMENTS

The fair value of an asset is considered to be the price at which the asset could be sold in an orderly transaction between unrelated knowledgeable and willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, rather than the amount that would be paid to settle the liability with the creditor. Assets and liabilities recorded at fair value are measured using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities that are measured at fair value on a recurring basis follow.

	Fair Value at January 28, 2018 Using			Fair Value at January 29, 2017 Using		
in millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative agreements – assets	$ —	$ 235	$ —	$ —	$ 271	$ —
Derivative agreements – liabilities	—	(12)	—	—	—	—
Total	$ —	$ 223	$ —	$ —	$ 271	$ —

We use derivative financial instruments from time to time in the management of our interest rate exposure on long-term debt and our exposure on foreign currency fluctuations. The fair value of our derivative financial instruments was measured using observable market information (level 2). Our derivative agreements are discussed further in Note 4.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The carrying amounts of cash and cash equivalents, receivables, short-term debt, and accounts payable approximate fair value due to the short-term maturities of these financial instruments.

Long-lived assets, goodwill, and other intangible assets were analyzed for impairment on a nonrecurring basis using fair value measurements with unobservable inputs (level 3).

The estimated fair values of the assets acquired and liabilities assumed for Interline, which was acquired in the third quarter of fiscal 2015, were measured using unobservable inputs (level 3). See Note 12 for further discussion of the Interline acquisition.

The aggregate fair values and carrying values of our senior notes follow.

	January 28, 2018		January 29, 2017	
in millions	Fair Value (Level 1)	Carrying Value	Fair Value (Level 1)	Carrying Value
Senior notes	$ 26,617	$ 24,485	$ 23,620	$ 22,013

8. EMPLOYEE STOCK PLANS

Omnibus Stock Incentive Plans

The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan (the "2005 Plan") and The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan (the "1997 Plan" and collectively with the 2005 Plan, the "Plans") provide that incentive and nonqualified stock options, stock appreciation rights, restricted stock, performance shares, performance units, and deferred shares may be issued to certain of our associates, officers, and directors. Under the 2005 Plan, the maximum number of shares of our common stock authorized for issuance is 255 million shares, with any award other than a stock option or stock appreciation right reducing the number of shares available for issuance by 2.11 shares. At January 28, 2018, there were 130 million shares available for future grants under the 2005 Plan. No additional equity awards could be issued from the 1997 Plan after the adoption of the 2005 Plan on May 26, 2005.

Stock Options. Under the terms of the Plans, incentive stock options and nonqualified stock options must have an exercise price at or above the fair market value of our stock on the date of the grant. Typically, incentive stock options and nonqualified stock options vest at the rate of 25% per year commencing on the first or second anniversary date of the grant, and expire on the tenth anniversary date of the grant. Additionally, certain stock options may become non-forfeitable upon the associate reaching age 60, provided the associate has had five years of continuous service.

Stock-based compensation expense and the total intrinsic value of stock options exercised follow.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Stock-based compensation expense related to stock options	$ 20	$ 26	$ 26
Total intrinsic value of stock options exercised	223	140	206

The per share weighted average fair value of stock options granted and the assumptions used in determining fair value at the date of grant using the Black-Scholes option-pricing model follow.

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Per share weighted average fair value	$ 21.85	$ 20.26	$ 18.54
Risk-free interest rate	1.9 %	1.4 %	1.4 %
Assumed volatility	19.4 %	20.7 %	20.8 %
Assumed dividend yield	2.4 %	2.1 %	2.0 %
Assumed lives of options	5 years	5 years	5 years

A summary of stock option activity by number of shares and weighted average exercise price follows.

shares in thousands	Number of Shares	Weighted Average Exercise Price
Outstanding at January 29, 2017	8,720	$ 70.69
Granted	648	148.04
Exercised	(2,029)	48.64
Forfeited	(143)	122.43
Outstanding at January 28, 2018	7,196	82.85

Details regarding outstanding and exercisable stock options at the end of fiscal 2017 follow.

shares in thousands, dollars in millions, except for per share amounts	Number of Shares	Intrinsic Value	Weighted Average Remaining Life	Weighted Average Exercise Price
Outstanding	7,196	$ 895	6 years	$ 82.85
Exercisable	3,757	575	4 years	54.13

At January 28, 2018, there were approximately 6 million stock options vested or expected to ultimately vest. At January 28, 2018, there was $23 million of unamortized stock-based compensation expense related to stock options, which is expected to be recognized over a weighted average period of two years.

Restricted Stock and Performance Shares. Restrictions on the restricted stock issued under the Plans generally lapse according to one of the following schedules:

- the restrictions on the restricted stock lapse over various periods up to five years;
- the restrictions on 25% of the restricted stock lapse upon the third and sixth anniversaries of the date of issuance with the remaining 50% of the restricted stock lapsing upon the associate’s attainment of age 62; or
- the restrictions on 25% of the restricted stock lapse upon the third and sixth anniversaries of the date of issuance with the remaining 50% of the restricted stock lapsing upon the earlier of the associate’s attainment of age 60 or the tenth anniversary of the grant date.

We have also granted performance shares under the Plans, the payout of which is dependent on our performance against target average ROIC and operating profit over a three-year performance cycle.

Additionally, certain awards may become non-forfeitable upon the associate's attainment of age 60, provided the associate has had five years of continuous service. The fair value of the restricted stock and performance shares is expensed over the period during which the restrictions lapse.

Recognized stock-based compensation expense related to restricted stock and performance shares is presented below.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Stock-based compensation expense related to restricted stock and performance shares	$ 209	$ 199	$ 180

A summary of restricted stock and performance shares activity by number of shares and weighted average grant date fair value is presented below.

shares in thousands	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at January 29, 2017	5,452	$ 103.41
Granted	1,769	144.12
Vested	(2,093)	90.25
Forfeited	(399)	120.38
Outstanding at January 28, 2018	4,729	123.03

At January 28, 2018, there was $337 million of unamortized stock-based compensation expense related to restricted stock and performance shares, which is expected to be recognized over a weighted average period of two years. The total fair value of restricted stock and performance shares that vested during the fiscal year follow.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Total fair value vested	$ 309	$ 354	$ 382

Deferred Shares. In fiscal 2017, there were an aggregate of 122,000 deferred shares granted under the Plans compared to 139,000 in fiscal 2016 and 152,000 in fiscal 2015. Each deferred share entitles the associate to one share of common stock to be received up to five years after the grant date of the deferred shares, subject to certain deferral rights of the associate. Additionally, certain awards may become non-forfeitable upon the associate reaching age 60, provided the associate has had five years of continuous service. Recorded stock-based compensation expense related to deferred shares follows.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Stock-based compensation expense related to deferred shares	$ 16	$ 16	$ 15

Employee Stock Purchase Plans

We maintain two ESPPs (U.S. and non-U.S. plans). The plan for U.S. associates is a tax-qualified plan under Section 423 of the Internal Revenue Code. The non-U.S. plan is not a Section 423 plan. At January 28, 2018, there were 20 million shares available under the U.S. plan and 19 million shares available under the non-U.S. plan. The purchase price of shares under the ESPPs is equal to 85% of the stock's fair market value on the last day of the purchase period, which is a six-month period ending on December 31 and June 30 of each year. During fiscal 2017, there were 1 million shares purchased under the ESPPs at an average price of $143.71. Under the outstanding ESPPs at January 28, 2018, employees have contributed $17 million to purchase shares at 85% of the stock's fair market value on the last day of the current purchase period (June 30, 2018). Recognized stock-based compensation expense related to ESPPs follows.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015

Stock-based compensation expense related to ESPPs	$ 28	$ 26	$ 23

9. EMPLOYEE BENEFIT PLANS

We maintain active defined contribution retirement plans for our employees (the "Benefit Plans"). All associates satisfying certain service requirements are eligible to participate in the Benefit Plans. We make cash contributions each payroll period up to specified percentages of associates' contributions as approved by our Board of Directors.

We also maintain the Restoration Plan to provide certain associates deferred compensation that they would have received under the Benefit Plans as a matching contribution if not for the maximum compensation limits under the Internal Revenue Code. We fund the Restoration Plan through contributions made to a grantor trust, which are then used to purchase shares of our common stock in the open market.

Our contributions to the Benefit Plans and the Restoration Plan follow.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Contributions to the Benefits Plans and the Restoration Plan	$ 202	$ 195	$ 186

At January 28, 2018, the Benefit Plans and the Restoration Plan held a total of 7 million shares of our common stock in trust for plan participants.

10. WEIGHTED AVERAGE COMMON SHARES

The reconciliation of our basic to diluted weighted average common shares follows.

in millions	Fiscal 2017	Fiscal 2016	Fiscal 2015
Basic weighted average common shares	1,178	1,229	1,277
Effect of potentially dilutive securities	6	5	6
Diluted weighted average common shares	1,184	1,234	1,283
Anti-dilutive securities excluded from diluted weighted average common shares	1	1	1

11. COMMITMENTS AND CONTINGENCIES

At January 28, 2018, we were contingently liable for approximately $447 million under outstanding letters of credit and open accounts issued for certain business transactions, including insurance programs, trade contracts, and construction contracts. Our letters of credit are primarily performance-based and are not based on changes in variable components, a liability or an equity security of the other party.

In addition to the Data Breach described below, we are involved in litigation arising in the normal course of business. In management's opinion, any such litigation is not expected to have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

Data Breach

As previously reported, in the third quarter of fiscal 2014, we confirmed that our payment data systems were breached, which potentially impacted customers who used payment cards at self-checkout systems in our U.S. and Canadian stores (the "Data Breach"). The Data Breach resulted in a number of claims and investigations, a significant number of which had been resolved prior to fiscal 2017. During fiscal 2017, the United States District Court for the Northern District of Georgia approved settlement agreements that resolved and dismissed the claims asserted in the two remaining litigation matters, the financial institution class actions and the purported shareholder derivative actions.

We previously recorded accruals for estimated probable losses in connection with the matters described above. As of the end of fiscal 2017, we had resolved the consumer, financial institution, and shareholder derivative claims, representing the significant majority of the claims relating to the Data Breach, and there were no material changes during fiscal 2017 to our loss contingency assessment relating to any remaining matters. Further, we do not believe that the ultimate amounts to be paid with respect to any remaining matters will have a material adverse effect on our consolidated financial condition, results of operations, or cash flows in future periods. As a result, in future filings we do not anticipate providing separate reporting with respect to the Data Breach.

12. INTERLINE ACQUISITION

In August 2015, we completed our acquisition of Interline, which established a platform in the MRO market. The aggregate purchase price was $1.7 billion, a portion of which was used for the repayment of substantially all of Interline's indebtedness at that time. We have consolidated Interline's results of operations in our financial statements since the date of acquisition. Pro forma results of operations for the period prior to the acquisition in fiscal 2015 would not be materially different as a result of the acquisition and therefore are not presented.

We finalized our purchase price allocation during the fourth quarter of fiscal 2015. The estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for Interline follow.

in millions	Fair Value
Current assets	$ 593
Long-lived assets other than goodwill	619
Goodwill	788
Other assets	49
Total assets acquired	2,049
Current liabilities	199
Other long-term liabilities	178
Total liabilities assumed	377
Net assets acquired	$ 1,672

Intangible assets acquired consist of customer relationships of $310 million, with a weighted average useful life of 12 years, and trade names of $253 million, with an indefinite life, which are included in other assets. The goodwill of $788 million represents future economic benefits expected to arise from our expanded presence in the MRO market and expected revenue and purchasing synergies. Neither the intangible assets nor the goodwill acquired are deductible for income tax purposes.

13. INVESTMENT IN HD SUPPLY

In fiscal 2015, the remaining principal shareholder of HD Supply elected to sell its shares of common stock in a secondary public offering, and we exercised our rights under a registration rights agreement to include our shares in this offering. As a result, we sold our remaining shares of HD Supply common stock (with zero cost basis) and recognized a pretax gain of $144 million in interest and investment income in fiscal 2015.

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of our quarterly consolidated results of operations follows.

in millions, except per share data	First Fiscal Quarter	Second Fiscal Quarter	Third Fiscal Quarter	Fourth Fiscal Quarter
Fiscal 2017:				
Net sales	$ 23,887	$ 28,108	$ 25,026	$ 23,883
Gross profit	8,154	9,461	8,648	8,093
Net earnings	2,014	2,672	2,165	1,779
Basic earnings per share	1.68	2.26	1.85	1.53
Diluted earnings per share	1.67	2.25	1.84	1.52
Fiscal 2016:				
Net sales	$ 22,762	$ 26,472	$ 23,154	$ 22,207
Gross profit	7,791	8,927	8,042	7,553
Net earnings	1,803	2,441	1,969	1,744

Basic earnings per share	1.45	1.98	1.61	1.45
Diluted earnings per share	1.44	1.97	1.60	1.44

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting during the fiscal quarter ended January 28, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) promulgated under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of January 28, 2018 based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of January 28, 2018 in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The effectiveness of our internal control over financial reporting as of January 28, 2018 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ CRAIG A. MENEAR	/s/ CAROL B. TOMÉ
Craig A. Menear Chairman, Chief Executive Officer and President	Carol B. Tomé Chief Financial Officer and Executive Vice President – Corporate Services

Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors
The Home Depot, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited The Home Depot, Inc. and Subsidiaries' internal control over financial reporting as of January 28, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Consolidated Balance Sheets of the Home Depot, Inc. and Subsidiaries as of January 28, 2018 and January 29, 2017, and the related Consolidated Statements of Earnings, Comprehensive Income, Stockholders' Equity, and Cash Flows for each of the fiscal years in the three-year period ended January 28, 2018, and the related notes (collectively, the "Consolidated Financial Statements"), and our report dated March 22, 2018 expressed an unqualified opinion on those Consolidated Financial Statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Atlanta, Georgia
March 22, 2018

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this item, other than the information regarding the executive officers set forth below, is incorporated by reference to the sections entitled "Election of Directors," "Corporate Governance," "General," and "Audit Committee Report" in our Proxy Statement for the 2018 Annual Meeting of Shareholders (the "Proxy Statement").

Executive officers are appointed by, and serve at the pleasure of, the Board of Directors. Our executive officers are as follows:

ANN-MARIE CAMPBELL, age 52, has been Executive Vice President – U.S. Stores since February 2016. From January 2009 to February 2016, she served as Division President of the Southern Division, and from December 2005 to January 2009, she served as Vice President – Vendor Services. Ms. Campbell began her career with The Home Depot in 1985 as a cashier and has held roles of increasing responsibility since she joined the Company, including vice president roles in the Company's operations, merchandising, and marketing departments. She serves as a director of Potbelly Corporation, a chain of neighborhood sandwich shops.

MATTHEW A. CAREY, age 53, has been Executive Vice President and Chief Information Officer since September 2008. From January 2006 through August 2008, he served as Senior Vice President and Chief Technology Officer at eBay Inc., an online commerce platform. Mr. Carey was previously with Wal-Mart Stores, Inc., a general merchandise retailer, from June 1985 to December 2005. His final position with Wal-Mart was Senior Vice President and Chief Technology Officer.

EDWARD P. DECKER, age 55, has been Executive Vice President – Merchandising since August 2014. From October 2006 through July 2014, he served as Senior Vice President – Retail Finance, Pricing Analytics, and Assortment Planning. Mr. Decker joined The Home Depot in 2000 and held various strategic planning roles, including serving as Vice President – Strategic Business Development from November 2002 to April 2006 and Senior Vice President – Strategic Business and Asset Development from April 2006 to September 2006. Prior to joining the Company, Mr. Decker held various positions in strategic planning, business development, finance, and treasury at Kimberly-Clark Corp. and Scott Paper Co., both of which are consumer products companies.

MARK Q. HOLIFIELD, age 61, has been Executive Vice President – Supply Chain and Product Development since February 2014. From July 2006 through February 2014, he served as Senior Vice President – Supply Chain. Mr. Holifield was previously with Office Depot, Inc., an office products and services company, from 1994 through July 2006, where he served in variety of supply chain positions, including Executive Vice President of Supply Chain Management.

TIMOTHY A. HOURIGAN, age 61, has been Executive Vice President – Human Resources since June 2017. From February 2016 through June 2017, he served as Division President of the Southern Division. Prior to his role as Division President, Mr. Hourigan served in various human resources roles with the Company, including Vice President – Human Resources, U.S. Stores and Operations from September 2013 to February 2016; Vice President – Compensation and Benefits from February 2007 to September 2013; and Vice President – Human Resources from July 2002 to February 2007.

WILLIAM G. LENNIE, age 62, has been Executive Vice President – Outside Sales & Service since August 2015. From March 2011 through January 2016, he served as President of The Home Depot Canada, and he served as Senior Vice President – International Merchandising, Private Brands, and Global Sourcing from March 2009 through March 2011. Mr. Lennie originally joined the Company in 1992 and held roles of increasing responsibility in the Company's merchandising department. In 2006, Mr. Lennie left the Company to be Senior Vice President of Merchandising, Hardlines for Dick's Sporting Goods, Inc., a sporting goods retailer, before re-joining The Home Depot in 2009.

CRAIG A. MENEAR, age 60, has been our Chief Executive Officer and President since November 2014 and our Chairman since February 2015. He previously served as our President, U.S. Retail from February 2014 to October 2014. From April 2007 through February 2014, he served as Executive Vice President –

Merchandising, and from August 2003 through April 2007, he served as Senior Vice President – Merchandising. From 1997 through August 2003, Mr. Menear served in various management and vice president level positions in the Company's merchandising department, including Merchandising Vice President of Hardware, Merchandising Vice President of the Southwest Division, and Divisional Merchandise Manager of the Southwest Division.

TERESA WYNN ROSEBOROUGH, age 59, has been Executive Vice President, General Counsel and Corporate Secretary since November 2011. From April 2006 through November 2011, Ms. Roseborough served in several legal positions with MetLife, Inc., a provider of insurance and other financial services, including Senior Chief Counsel – Compliance & Litigation and most recently as Deputy General Counsel. Prior to joining MetLife, Ms. Roseborough was a partner with the law firm Sutherland Asbill & Brennan LLP from February 1996 through March 2006 and a Deputy Assistant Attorney General in the Office of Legal Counsel of the United States Department of Justice from January 1994 through February 1996. Ms. Roseborough serves as a director of The Hartford Financial Services Group, Inc., an investment and insurance company.

CAROL B. TOMÉ, age 61, has been Chief Financial Officer since May 2001 and Executive Vice President – Corporate Services since January 2007. Prior thereto, Ms. Tomé served as Senior Vice President – Finance and Accounting/Treasurer from February 2000 through May 2001 and as Vice President and Treasurer from 1995 through February 2000. From 1992 until 1995, when she joined the Company, Ms. Tomé was Vice President and Treasurer of Riverwood International Corporation, a provider of paperboard packaging. Ms. Tomé serves as a director of United Parcel Service, Inc., a global package delivery and logistics provider. She also serves as a member of the Advisory Board of certain Fidelity funds, and in fiscal 2017, she served as Trustee of certain Fidelity funds.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to the sections entitled "Executive Compensation," "Director Compensation," and "Leadership Development and Compensation Committee Report" in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference to the sections entitled "Beneficial Ownership of Common Stock" and "Executive Compensation – Equity Compensation Plan Information" in our Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference to the section entitled "Corporate Governance" in our Proxy Statement.

Item 14. Principal Accountant Fees and Services.

The information required by this item is incorporated by reference to the section entitled "Independent Registered Public Accounting Firm's Fees" in our Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

The following documents are filed as part of this report:

1. Financial Statements

The following financial statements are set forth in Item 8 hereof:

- Report of Independent Registered Public Accounting Firm;
- Consolidated Balance Sheets as of January 28, 2018 and January 29, 2017;
- Consolidated Statements of Earnings for fiscal 2017, fiscal 2016, and fiscal 2015;

- Consolidated Statements of Comprehensive Income for fiscal 2017, fiscal 2016, and fiscal 2015;
- Consolidated Statements of Stockholders’ Equity for fiscal 2017, fiscal 2016, and fiscal 2015;
- Consolidated Statements of Cash Flows for fiscal 2017, fiscal 2016, and fiscal 2015; and
- Notes to Consolidated Financial Statements.

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2. Financial Statement Schedules

All schedules are omitted as the required information is inapplicable or the information is presented in our consolidated financial statements or related notes.

3. Exhibits

Exhibits not filed or furnished herewith are incorporated by reference to exhibits previously filed with the SEC, as reflected in the table below. Our Current, Quarterly, and Annual Reports are filed with the SEC under File No. 1-8207. Our Registration Statements have the file numbers noted wherever such statements are identified in the following list of exhibits. We will furnish a copy of any exhibit to shareholders without charge upon written request to Investor Relations, The Home Depot, Inc., 2455 Paces Ferry Road, Atlanta, Georgia 30339, via the internet at http://ir.homedepot.com, or by calling Investor Relations at (770) 384-2871.

Exhibit	Description	Reference
3.1	Amended and Restated Certificate of Incorporation of The Home Depot, Inc.	Form 10-Q for the fiscal quarter ended July 31, 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
4.1	Indenture, dated as of May 4, 2005, between The Home Depot, Inc. and The Bank of New York Trust Company, N.A., as Trustee	Form S-3 (File No. 333-124699) filed May 6, 2005, Exhibit 4.1
4.2	Indenture, dated as of August 24, 2012 between The Home Depot, Inc. and Deutsche Bank Trust Company Americas, as Trustee	Form S-3 (File No. 333-183621) filed August 29, 2012, Exhibit 4.3
4.3	Form of 5.875% Senior Note due December 16, 2036	Form 8-K filed December 19, 2006, Exhibit 4.3
4.4	Form of 3.95% Senior Note due September 15, 2020	Form 8-K filed September 10, 2010, Exhibit 4.1
4.5	Form of 5.40% Senior Note due September 15, 2040	Form 8-K filed September 10, 2010, Exhibit 4.2
4.6	Form of 4.40% Senior Note due April 1, 2021	Form 8-K filed March 31, 2011, Exhibit 4.1
4.7	Form of 5.95% Senior Note due April 1, 2041	Form 8-K filed March 31, 2011, Exhibit 4.2
4.8	Form of 2.700% Senior Note due April 1, 2023	Form 8-K filed April 5, 2013, Exhibit 4.2
4.9	Form of 4.200% Senior Note due April 1, 2043	Form 8-K filed April 5, 2013, Exhibit 4.3
4.10	Form of 2.250% Senior Note due September 10, 2018	Form 8-K filed September 10, 2013, Exhibit 4.2
4.11	Form of 3.750% Senior Note due February 15, 2024	Form 8-K filed September 10, 2013, Exhibit 4.3
4.12	Form of 4.875% Senior Note due February 15, 2044	Form 8-K filed September 10, 2013, Exhibit 4.4
4.13	Form of 2.00% Senior Note due June 15, 2019	Form 8-K filed June 12, 2014, Exhibit 4.2
4.14	Form of 4.40% Senior Note due March 15, 2045	Form 8-K filed June 12, 2014, Exhibit 4.3
4.15	Form of 2.625% Senior Note due June 1, 2022	Form 8-K filed June 2, 2015, Exhibit 4.2
4.16	Form of 4.250% Senior Note due April 1, 2046	Form 8-K filed June 2, 2015, Exhibit 4.3
4.17	Form of Floating Rate Note due September 15, 2017	Form 8-K filed September 15, 2015, Exhibit 4.2
4.18	Form of 3.35% Note due September 15, 2025	Form 8-K filed September 15, 2015, Exhibit 4.3
4.19		Form 8-K filed February 12, 2016, Exhibit 4.2

	Form of 2.000% Senior Note due April 1, 2021	
4.20	Form of 3.000% Senior Note due April 1, 2026	Form 8-K filed February 12, 2016, Exhibit 4.3
4.21	Form of 4.250% Senior Note due April 1, 2046	Form 8-K filed February 12, 2016, Exhibit 4.4
4.22	Form of 2.125% Senior Note due September 15, 2026	Form 8-K filed September 15, 2016, Exhibit 4.2

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Exhibit		Description	Reference
4.23		Form of 3.500% Senior Note due September 15, 2056	Form 8-K filed September 15, 2016, Exhibit 4.3
4.24		Form of Floating Rate Note due June 5, 2020	Form 8-K filed June 5, 2017, Exhibit 4.2
4.25		Form of 1.800% Senior Note due June 5, 2020	Form 8-K filed June 5, 2017, Exhibit 4.3
4.26		Form of 3.900% Senior Note due June 15, 2047	Form 8-K filed June 5, 2017, Exhibit 4.4
4.27		Form of 2.800% Note due September 14, 2027	Form 8-K filed September 14, 2017, Exhibit 4.2
10.1	†	The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended August 4, 2002, Exhibit 10.1
10.2	†	Form of Executive Employment Death Benefit Agreement	Form 10-K for the fiscal year ended February 3, 2013, Exhibit 10.2
10.3	†	The Home Depot Deferred Compensation Plan for Officers (As Amended and Restated Effective January 1, 2008)	Form 8-K filed on August 20, 2007, Exhibit 10.1
10.4	†	Amendment No. 1 to The Home Depot Deferred Compensation Plan for Officers (As Amended and Restated Effective January 1, 2008)	Form 10-K for the fiscal year ended January 31, 2010, Exhibit 10.4
10.5	†	The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended May 5, 2013, Exhibit 10.1
10.6	†	Amendment No. 1 to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan and The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan	Form 10-K for the fiscal year ended January 31, 2010, Exhibit 10.6
10.7	†	The Home Depot FutureBuilder Restoration Plan	Form 8-K filed on August 20, 2007, Exhibit 10.2
10.8	†	Amendment No.1 to The Home Depot FutureBuilder Restoration Plan	Form 10-K for the fiscal year ended February 2, 2014, Exhibit 10.8
10.9	†	The Home Depot, Inc. Nonemployee Directors' Deferred Stock Compensation Plan	Form 8-K filed on August 20, 2007, Exhibit 10.3
10.10	†	The Home Depot, Inc. Amended and Restated Management Incentive Plan (Effective November 21, 2013)	Form 10-K for the fiscal year ended February 2, 2014, Exhibit 10.10
10.11	†	The Home Depot, Inc. Amended and Restated Employee Stock Purchase Plan, as amended and restated effective July 1, 2012	Form 10-Q for the fiscal quarter ended April 29, 2012, Exhibit 10.1
10.12	†	Form of Executive Officer Restricted Stock Award Pursuant to The Home Depot, Inc. 1997 Omnibus Stock Incentive Plan	Form 10-Q for the fiscal quarter ended October 31, 2004, Exhibit 10.1
10.13	†	Form of Nonqualified Stock Option Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 27, 2007, Exhibit 10.6
10.14	†	Form of Executive Officer Nonqualified Stock Option Award Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 13, 2009, Exhibit 10.4
10.15	†	Form of Deferred Share Award (Nonemployee Director) Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on November 15, 2007, Exhibit 10.1
10.16	†	Form of Equity Award Terms and Conditions Agreement Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 2, 2011, Exhibit 10.1
10.17	†		Form 8-K filed on March 6, 2013, Exhibit 10.1

Form of Executive Officer Equity Award Terms and Conditions Agreement Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan

Exhibit		Description	Reference
10.18	†	Form of Executive Officer Equity Award Agreement (Nonqualified Stock Option) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 8, 2016, Exhibit 10.1
10.19	†	Form of Executive Officer Equity Award Agreement (Performance Based Restricted Stock) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 8, 2016, Exhibit 10.2
10.20	†	Form of Executive Officer Equity Award Agreement (Performance Shares) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on March 8, 2016, Exhibit 10.3
10.21	†	Form of Deferred Share Award (Nonemployee Director) Pursuant to The Home Depot, Inc. 2005 Omnibus Stock Incentive Plan	Form 10-K for the fiscal year ended January 29, 2017, Exhibit 10.21
10.22	†	Form of Executive Officer Equity Award Agreement (Performance Shares) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on February 28, 2018, Exhibit 10.1
10.23	†	Form of Executive Officer Equity Award Agreement (Performance Based Restricted Stock) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on February 28, 2018, Exhibit 10.2
10.24	†	Form of Executive Officer Equity Award Agreement (Nonqualified Stock Option) Pursuant to The Home Depot, Inc. Amended and Restated 2005 Omnibus Stock Incentive Plan	Form 8-K filed on February 28, 2018, Exhibit 10.3
10.25	†	Employment Arrangement between Craig A. Menear and The Home Depot, Inc., dated October 16, 2014	Form 10-Q for the fiscal quarter ended November 2, 2014, Exhibit 10.2
10.26	†	Employment Arrangement between Carol B. Tomé and The Home Depot, Inc., dated January 20, 2007	Form 8-K/A filed on January 24, 2007, Exhibit 10.2
10.27	†	Code Section 409A Amendment to Employment Arrangement between Carol B. Tomé and The Home Depot, Inc., dated December 21, 2012	Form 10-K for the fiscal year ended February 3, 2013, Exhibit 10.22
10.28	†	Employment Arrangement between Matthew A. Carey and The Home Depot, Inc., dated August 22, 2008, as amended on September 3, 2008	Form 10-K for the fiscal year ended January 30, 2011, Exhibit 10.36
10.29	†	Employment Arrangement between Mark Q. Holifield and The Home Depot, Inc., dated February 27, 2014	Form 10-K for the fiscal year ended February 1, 2015, Exhibit 10.30
10.30	†	Employment Arrangement between Ann-Marie Campbell and The Home Depot, Inc., dated January 12, 2016	Form 10-K for the fiscal year ended January 29, 2017, Exhibit 10.29
10.31	*†	Employment Arrangement between Edward P. Decker and The Home Depot, Inc., dated July 29, 2014	

12	*	Statement of Computation of Ratio of Earnings to Fixed Charges
21	*	List of Subsidiaries of the Company
23	*	Consent of Independent Registered Public Accounting Firm

Exhibit		Description	Reference
31.1	*	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended	
31.2	*	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended	
32.1	‡	Certification of Chief Executive Officer, 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, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
101.INS	*	XBRL Instance Document	
101.SCH	*	XBRL Taxonomy Extension Schema Document	
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document	

† *Management contract or compensatory plan or arrangement*

* *Filed herewith*

‡ *Furnished (and not filed) herewith pursuant to Item 601(b)(32)(ii) of the SEC's Regulation S-K*

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Date: March 21, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of March 21, 2018.

Signature	Title
/s/ CRAIG A. MENEAR Craig A. Menear	Chairman, Chief Executive Officer and President (Principal Executive Officer)
/s/ CAROL B. TOMÉ Carol B. Tomé	Chief Financial Officer and Executive Vice President – Corporate Services (Principal Financial Officer and Principal Accounting Officer)
/s/ GERARD J. ARPEY Gerard J. Arpey	Director
/s/ ARI BOUSBIB Ari Bousbib	Director
/s/ JEFFERY H. BOYD Jeffery H. Boyd	Director
/s/ GREGORY D. BRENNEMAN Gregory D. Brenneman	Director
/s/ J. FRANK BROWN J. Frank Brown	Director
/s/ ALBERT P. CAREY Albert P. Carey	Director
/s/ ARMANDO CODINA Armando Codina	Director
/s/ HELENA B. FOULKES Helena B. Foulkes	Director
/s/ LINDA R. GOODEN Linda R. Gooden	Director
/s/ WAYNE M. HEWETT Wayne M. Hewett	Director
/s/ KAREN L. KATEN Karen L. Katen	Director
/s/ MARK VADON	Director

Mark Vadon

THE HOME DEPOT, INC.
SELECTED FINANCIAL DATA

amounts in millions, except per share data or where noted	Fiscal 2017	Fiscal 2016	Fiscal 2015	Fiscal 2014	Fiscal 2013
STATEMENT OF EARNINGS DATA					
Net sales	$100,904	$94,595	$88,519	$83,176	$78,812
Net sales increase (%)	6.7	6.9	6.4	5.5	5.4
Earnings before provision for income taxes ($)	13,698	12,491	11,021	9,976	8,467
Net earnings ($)	8,630	7,957	7,009	6,345	5,385
Net earnings increase (%)	8.5	13.5	10.5	17.8	18.7
Diluted earnings per share ($)	7.29	6.45	5.46	4.71	3.76
Diluted earnings per share increase (%)	13.0	18.1	15.9	25.3	25.3
Diluted weighted average number of common shares	1,184	1,234	1,283	1,346	1,434
Gross profit – % of sales	34.0	34.2	34.2	34.1	34.2
Total operating expenses – % of sales	19.5	20.0	20.9	21.5	22.5
Interest and other, net – % of sales	1.0	1.0	0.9	0.6	0.9
Net earnings – % of sales	8.6	8.4	7.9	7.6	6.8
BALANCE SHEET DATA AND FINANCIAL RATIOS					
Total assets	$44,529	$42,966	$41,973	$39,449	$39,996
Working capital ($)	2,739	3,591	3,960	3,589	4,050
Merchandise inventories ($)	12,748	12,549	11,809	11,079	11,057
Net property and equipment ($)	22,075	21,914	22,191	22,720	23,348
Long-term debt, excluding current installments ($)	24,267	22,349	20,789	16,786	14,615
Stockholders' equity ($)	1,454	4,333	6,316	9,322	12,522
Long-term debt-to-equity (%)	1,669.0	515.8	329.1	180.1	116.7
Total debt-to-equity (%)	1,858.9	544.7	335.9	183.6	117.0
Current ratio	1.17:1	1.25:1	1.32:1	1.32:1	1.38:1
Inventory turnover	5.1x	4.9x	4.9x	4.7x	4.6x
Return on invested capital (%)	34.2	31.4	28.1	25.0	20.9
STATEMENT OF CASH FLOWS DATA					
Depreciation and amortization	$2,062	$1,973	$1,863	$1,786	$1,757
Capital expenditures ($)	1,897	1,621	1,503	1,442	1,389
Cash dividends per share ($)	3.56	2.76	2.36	1.88	1.56
STORE AND OTHER SALES DATA					
Number of stores	2,284	2,278	2,274	2,269	2,263
Square footage at fiscal year-end	237	237	237	236	236
Average square footage per store (in thousands)	104	104	104	104	104
Comparable sales increase (%) (1)	6.8	5.6	5.6	5.3	6.8
Sales per square foot ($) (1)	417.02	390.78	370.55	352.22	334.35
Customer transactions (1)	1,579	1,544	1,501	1,442	1,391
Average ticket ($) (1)	63.06	60.35	58.77	57.87	56.78
Number of associates at fiscal year-end (in thousands)	413	406	385	371	365

Note: This information should be read in conjunction with MD&A and our consolidated financial statements.

(1) *These amounts do not include the results for Interline, which was acquired in the third quarter of fiscal 2015.*