**Fitch Rates The Home Depot, Inc.'s Proposed Sr. Unsecured Notes 'A'**
**Tuesday, September 06, 2016 02:18:00 PM (GMT)**

Fitch Ratings has assigned an 'A' rating to The Home Depot, Inc.'s (Home Depot) proposed issuance of senior unsecured notes. The approximately $2 billion of expected proceeds from the issue will primarily be used for general corporate purposes including share repurchases. A full list of ratings follows at the end of this release.

KEY RATING DRIVERS

The rating reflects Home Depot's strong track record of comparable store sales (comps) growth, margin expansion and cash flow generation. Fitch expects the company to maintain leverage (adjusted debt/EBITDAR) in line with its publicly stated target of 2.0x over the forecast horizon.

With $89 billion in 2015 sales, Home Depot holds the leading position in the U.S. home improvement industry, which is amidst a recovery from the prior housing recession. Fitch's rating anticipates a continued recovery as well as a benign competitive environment. However, should the housing recovery stall, Fitch believes Home Depot has the willingness and ability to use its cash flow generation to maintain its leverage commitments.

Solid Track Record

Home Depot has grown comps and EBITDA margin every year since 2010, with 5% average annual comps and EBITDA improvement of over 500bps from 2009 to 15.8% in 2015. Operating momentum has been supported by improvement in home improvement industry fundamentals, especially regarding repair and maintenance projects. Home improvement retailers have further benefited from benign industry square footage growth (including very modest unit expansion from Home Depot and chief competitor Lowes) and competitive resilience to the discount and online channels.

Success in the home improvement industry requires significant investments in inventory breadth and customer service, and discounters generally focus on categories with narrow assortment needs and limited customer service. Online competition, meanwhile, has been limited due to short purchase windows and the bulky/heavy nature of home improvement inventory (note that nearly half of Home Depot's existing online sales involve in-store merchandise pickup).

Continued Growth Expected

Fitch anticipates continued sales and EBITDA growth over the forecast horizon, predicated on a continued U.S. housing market recovery and Home Depot's focus on its strategic pillars of customer service, product leadership, capital allocation, and interconnected retail. The company's growth initiatives are designed to leverage Home Depot's existing scale to broaden its customer base and share of wallet. For example, the recent acquisition of Interline Brands gives Home Depot access to the underpenetrated residential facility maintenance and repair market. Meanwhile, Home Depot is using its online infrastructure to expand product assortment and offer customers increased product knowledge, while promoting its in-store pickup capability.

Fitch believes successful execution of its initiatives, coupled with industry tailwinds, will allow Home Depot to generate 2% - 4% annual comps and revenue growth over time. EBITDA margins are expected to remain around 16% though Home Depot could leverage fixed expenses at the high end of its comps range. Modest annual EBITDA growth is projected to yield annual free cash flow (FCF) of $4.0 - $4.5 billion after dividends of approximately $3.5 - $4.0 billion.

Disciplined Capital Allocation

Home Depot's scale and stable growth has allowed it to comfortably manage to its adjusted leverage target of 2.0x for several years (1.9x at year-end 2015). Fitch expects management to continue to balance its leverage target against its goal to return cash to shareholders, with incremental debt issuance expected to support share purchases. Given Home Depot's leverage commitment, Fitch believes management could pull back on share repurchase to maintain or reduce debt levels should economic or operating headwinds limit

EBITDA growth.

KEY ASSUMPTIONS

--Fitch expects Home Depot to produce comps in the 3% - 5% range over the next two years, supported by a continued recovery in the housing market and the company's strategic investments;

--EBITDA margin is expected to remain close to 16%, yielding 3 - 4% average EBITDA growth;

--Fitch expects $4.0 - $4.5 billion of annual FCF after dividends going forward;

--Fitch expects FCF and some incremental borrowings to be directed to share repurchases, as the company manages to its adjusted leverage target of 2.0x.

RATING SENSITIVITIES

Weaker operating trends or a move by management to more shareholder-friendly policies that cause adjusted leverage to increase to the low 2x range on a sustained basis could lead to a negative rating action.

Continued positive operating trends together with a sustained reduction in adjusted leverage to below 1.5x could lead to a positive rating action.

LIQUIDITY

Home Depot has a strong liquidity position supported by a cash balance of $4.0 billion at July 31, 2016, together with an undrawn $2 billion credit facility. The company also benefits from owning 90% of its stores.

Home Depot is maintaining a very slow pace of new-store expansion, with plans to build only five new stores in 2016. Low levels of capital expenditures (less than 2% of sales) have resulted in strong FCF after dividends, which is expected to track more than $4 billion annually going forward. Fitch expects Home Depot would remain FCF positive in an economic downturn, as it did through the last recession.

FULL LIST OF RATING ACTIONS

Fitch currently rates Home Depot's as follows:

--Long-term Issuer Default Rating (IDR) 'A';

--Senior unsecured notes 'A';

--Bank credit facilities 'A';

--Short-term IDR 'F1';

--Commercial paper 'F1'.

The Rating Outlook is Stable.

Date of Relevant Rating Committee: Feb. 24, 2016

Summary of Financial Statement Adjustments - Financial statement adjustments that depart materially from those contained in the published financial statement of the relevant rated entity or obligor are disclosed below:

--Historical and projected EBITDA is adjusted to add back non-cash stock based compensation and exclude data breach charges. In fiscal 2015, Fitch added back $244 million in non-cash stock based compensation and $128 million in data breach charges to its EBITDA calculation.

--Fitch has adjusted the historical and projected debt by adding 8x yearly operating lease expense.

Additional information is available on www.fitchratings.com.

Applicable Criteria

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015)

https://www.fitchratings.com/site/re/869362

Additional Disclosures

Solicitation Status

https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=1011265

Endorsement Policy

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**Industries:** Home Goods, Professional Services, Finance, Retail
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