HOME DEPOT INC
Form 10-Q
August 21, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 29, 2018
- OR -
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-8207
THE HOME DEPOT, INC.
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| Delaware | 95-3261426 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| 2455 Paces Ferry Road, Atlanta, Georgia | 30339 |
| (Address of principal executive offices) | (Zip Code) |

(770) 433-8211
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

1,144,138,185 shares of common stock, $0.05 par value, as of August 14, 2018

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COMMONLY USED OR DEFINED TERMS

| Term | Definition |
|---|---|
| ASR | Accelerated share repurchase |
| ASU | Accounting Standards Update |
| Comparable sales | As defined in the Results of Operations - Sales section of MD&A |
| Exchange Act | Securities Exchange Act of 1934, as amended |
| FASB | Financial Accounting Standards Board |
| 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 |
| Interline | Interline Brands, Inc. |
| MD&A | Management's Discussion and Analysis of Financial Condition and Results of Operations |
| NOPAT | Net operating profit after tax |
| PLCC | Private label credit card |
| 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 | 2017 tax reform, commonly referred to as the Tax Cuts and Jobs Act of 2017 |
| 2017 Form 10-K | Annual Report on Form 10-K as filed with the SEC on March 22, 2018 for fiscal 2017 |

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FORWARD-LOOKING STATEMENTS

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 or are currently unknown to us – as well as potentially inaccurate assumptions that could cause actual results to differ materially from our expectations and projections. These risks and uncertainties include, but are not limited to, those described in Part II, Item 1A, "Risk Factors" and elsewhere in this report and as also may be described from time to time in our 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 in this report, generally because we do not currently perceive them to be material. Such factors could cause results to differ materially from our expectations.

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

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.
THE HOME DEPOT, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| in millions, except per share data | July 29, 2018 | January 28, 2018 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $3,490 | $ 3,595 |
| Receivables, net | 2,164 | 1,952 |
| Merchandise inventories | 14,044 | 12,748 |
| Other current assets | 1,104 | 638 |
| Total current assets | 20,802 | 18,933 |
| Property and equipment, net of accumulated depreciation of $19,955 at July 29, 2018 and $19,339 at January 28, 2018 | 21,909 | 22,075 |
| Goodwill | 2,251 | 2,275 |
| Other assets | 1,270 | 1,246 |
| Total assets | $46,232 | $ 44,529 |
| | | |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Short-term debt | $— | $ 1,559 |
| Accounts payable | 9,407 | 7,244 |
| Accrued salaries and related expenses | 1,535 | 1,640 |
| Sales taxes payable | 750 | 520 |
| Deferred revenue | 1,989 | 1,805 |
| Current installments of long-term debt | 2,203 | 1,202 |
| Other accrued expenses | 2,542 | 2,224 |
| Total current liabilities | 18,426 | 16,194 |
| Long-term debt, excluding current installments | 23,295 | 24,267 |
| Other long-term liabilities | 2,502 | 2,614 |
| Total liabilities | 44,223 | 43,075 |
| | | |
| Common stock, par value $0.05; authorized: 10,000 shares; issued: 1,782 shares at July 29, 2018 and 1,780 shares at January 28, 2018; outstanding: 1,145 shares at July 29, 2018 and 1,158 shares at January 28, 2018 | 89 | 89 |
| Paid-in capital | 10,079 | 10,192 |
| Retained earnings | 43,543 | 39,935 |
| Accumulated other comprehensive loss | (774) | (566) |
| Treasury stock, at cost, 637 shares at July 29, 2018 and 622 shares at January 28, 2018 | (50,928) | (48,196) |
| Total stockholders’ equity | 2,009 | 1,454 |
| Total liabilities and stockholders’ equity | $46,232 | $ 44,529 |

See accompanying notes to consolidated financial statements.

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

| in millions, except per share data | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 29, 2018 | July 30, 2017 | July 29, 2018 | July 30, 2017 |
| Net sales | $30,463 | $28,108 | $55,410 | $51,995 |
| Cost of sales | 20,098 | 18,647 | 36,428 | 34,380 |
| Gross profit | 10,365 | 9,461 | 18,982 | 17,615 |
| Operating expenses: | | | | |
| Selling, general and administrative | 5,004 | 4,549 | 9,783 | 8,910 |
| Depreciation and amortization | 460 | 449 | 917 | 893 |
| Total operating expenses | 5,464 | 4,998 | 10,700 | 9,803 |
| Operating income | 4,901 | 4,463 | 8,282 | 7,812 |
| Interest and other (income) expense: | | | | |
| Interest and investment income | (26) | (16) | (48) | (29) |
| Interest expense | 272 | 265 | 533 | 519 |
| Interest and other, net | 246 | 249 | 485 | 490 |
| Earnings before provision for income taxes | 4,655 | 4,214 | 7,797 | 7,322 |
| Provision for income taxes | 1,149 | 1,542 | 1,887 | 2,636 |
| Net earnings | $3,506 | $2,672 | $5,910 | $4,686 |
| | | | | |
| Basic weighted average common shares | 1,144 | 1,183 | 1,148 | 1,191 |
| Basic earnings per share | $3.06 | $2.26 | $5.15 | $3.93 |
| | | | | |
| Diluted weighted average common shares | 1,149 | 1,189 | 1,154 | 1,197 |
| Diluted earnings per share | $3.05 | $2.25 | $5.12 | $3.91 |
| | | | | |
| Dividends declared per share | $1.03 | $0.89 | $2.06 | $1.78 |

See accompanying notes to consolidated financial statements.

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

| in millions | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 29, 2018 | July 30, 2017 | July 29, 2018 | July 30, 2017 |
| Net earnings | $3,506 | $2,672 | $5,910 | $4,686 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | (187) | 419 | (263) | 389 |
| Cash flow hedges, net of tax | 20 | 22 | 48 | (3) |
| Other | (11) | — | 7 | (1) |
| Total other comprehensive income (loss) | (178) | 441 | (208) | 385 |
| Comprehensive income | $3,328 | $3,113 | $5,702 | $5,071 |

See accompanying notes to consolidated financial statements.

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

| in millions | Six Months Ended July 29, 2018 | July 30, 2017 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Net earnings | $5,910 | $4,686 |
| Reconciliation of net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,062 | 1,015 |
| Stock-based compensation expense | 144 | 148 |
| Changes in assets and liabilities, net of acquisition effects: | | |
| Receivables, net | (192) | (96) |
| Merchandise inventories | (1,355) | (188) |
| Other current assets | (468) | — |
| Accounts payable and other accrued expenses | 2,617 | 1,714 |
| Deferred revenue | 287 | 254 |
| Income taxes payable | 21 | 299 |
| Deferred income taxes | (120) | (79) |
| Other | 1 | 109 |
| Net cash provided by operating activities | 7,907 | 7,862 |
| | | |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (1,091) | (846) |
| Payments for business acquired, net | — | (268) |
| Proceeds from sales of property and equipment | 16 | 23 |
| Net cash used in investing activities | (1,075) | (1,091) |
| | | |
| Cash Flows from Financing Activities: | | |
| Repayments of short-term debt, net | (1,559) | (710) |
| Proceeds from long-term debt, net of discounts | — | 1,994 |
| Repayments of long-term debt | (28) | (21) |
| Repurchases of common stock | (3,121) | (3,921) |
| Proceeds from sales of common stock | 125 | 137 |
| Cash dividends | (2,373) | (2,130) |
| Other financing activities | 142 | 2 |
| Net cash used in financing activities | (6,814) | (4,649) |
| Change in cash and cash equivalents | 18 | 2,122 |
| Effect of exchange rate changes on cash and cash equivalents | (123) | 170 |
| Cash and cash equivalents at beginning of period | 3,595 | 2,538 |
| Cash and cash equivalents at end of period | $3,490 | $4,830 |
| | | |
| Supplemental Disclosures: | | |
| Cash paid for interest, net of interest capitalized | $515 | $490 |
| Cash paid for income taxes | 2,009 | 2,268 |

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements of The Home Depot, Inc. and its subsidiaries (the "Company," "Home Depot," "we," "our" or "us") have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2017 Form 10-K.

There were no significant changes to our significant accounting policies as disclosed in the 2017 Form 10-K, except as set forth below.

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. 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 (estimated non-redeemed gift card balance) is recognized in proportion to the redemption pattern of rights exercised by the customer. For merchandise sold to customers to whom we directly extend credit, collection of tender is typically expected within three months or less from the time of purchase. We also have agreements with third-party service providers who directly extend credit to customers and manage our PLCC program. The deferred interest charges we incur for our deferred financing programs offered to our customers, 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.

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.

Recently Adopted Accounting Pronouncements

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.

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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 $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.

The effect of the adoption of ASU No. 2014-09 on our consolidated balance sheet as of July 29, 2018, follows.

| in millions | As Reported | ASU No. 2014-09 Effect[(1)] | Excluding ASU No. 2014-09 Effect |
|---|---|---|---|
| Receivables, net | $ 2,164 | $ (46 ) | $ 2,210 |
| Other current assets | 1,104 | 272 | 832 |
| Other accrued expenses | 2,542 | 226 | 2,316 |

(1) Does not include the cumulative effect of initially applying ASU No. 2014-09 to our consolidated balance sheet as adjusted as of January 29, 2018.

The effect of the adoption of ASU No. 2014-09 on our consolidated statements of earnings follows.

| in millions | As Reported | ASU No. 2014-09 Effect | Excluding ASU No. 2014-09 Effect |
|---|---|---|---|
| Three Months Ended July 29, 2018: | | | |
| Net sales | $ 30,463 | $ 33 | $ 30,430 |
| Cost of sales | 20,098 | (119 ) | 20,217 |
| Gross profit | 10,365 | 152 | 10,213 |
| Selling, general and administrative | 5,004 | 152 | 4,852 |
| | | | |
| Six Months Ended July 29, 2018: | | | |
| Net sales | $ 55,410 | $ 66 | $ 55,344 |
| Cost of sales | 36,428 | (217 ) | 36,645 |
| Gross profit | 18,982 | 283 | 18,699 |
| Selling, general and administrative | 9,783 | 283 | 9,500 |

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.

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Recent Accounting Pronouncements

Recent accounting pronouncements pending adoption not discussed above or in the 2017 Form 10-K are either not applicable or will not have or are not expected to have a material impact on us.

2. NET SALES

No sales to an individual customer or country other than the U.S. accounted for more than 10% of net sales during the three and six months ended July 29, 2018. Net sales, classified by geography follow.

| in millions | Three Months Ended July 29, 2018 | Six Months Ended July 29, 2018 |
|---|---|---|
| Net sales – in the U.S. | $27,852 | $50,895 |
| Net sales – outside the U.S. | 2,611 | 4,515 |
| Net sales | $30,463 | $55,410 |

Net sales by products and services for the three and six months ended July 29, 2018 follow.

| in millions | Three Months Ended July 29, 2018 | Six Months Ended July 29, 2018 |
|---|---|---|
| Net sales – products | $29,076 | $52,811 |
| Net sales – services | 1,387 | 2,599 |
| Net sales | $30,463 | $55,410 |

Major product lines, as well as the associated merchandising departments (and related services) for the three and six months ended July 29, 2018 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 major product lines follow.

| in millions | Three Months Ended July 29, 2018 | Six Months Ended July 29, 2018 |
|---|---|---|
| Building Materials | $10,678 | $20,004 |
| Décor | 9,642 | 18,057 |
| Hardlines | 10,143 | 17,349 |
| Net sales | $30,463 | $55,410 |

3. INCOME TAXES

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. As of July 29, 2018, our accounting for the Tax Act was incomplete. As disclosed in our 2017 Form 10-K, however, we were able to reasonably estimate certain effects and, therefore, recorded provisional adjustments associated with the deemed repatriation transition tax and remeasurement of deferred tax assets and liabilities. During the second quarter of fiscal 2018, we made a measurement-period adjustment related to withholding taxes that did not

have a material impact to the financial statements. We have not made any additional measurement-period adjustments during fiscal 2018 because we have not finalized the following items: the earnings and profits of the relevant subsidiaries, deemed repatriation of deferred foreign income, and prior year deferred tax activity. We are continuing to gather additional information to complete our accounting for these items and expect to complete o

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ur accounting within the one-year time period provided by SAB 118. Any adjustment to these amounts during the measurement period will be recorded to the provision for income taxes in the period in which the analysis is complete. The Tax Act also creates a new requirement that certain income (i.e., global intangible low-taxed income or "GILTI") earned by controlled foreign corporations ("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 are not yet able to reasonably estimate the long-term effects of this provision. Therefore, we have not recorded any potential deferred tax effects related to GILTI in our consolidated financial statements and have not made a policy decision regarding whether to record deferred taxes on GILTI or use the period cost method. We have, however, included an estimate of the current GILTI impact in our annual effective tax rate for fiscal 2018.

4. STOCKHOLDERS' EQUITY

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. These agreements are structured as outlined in the 2017 Form 10-K. The terms of the ASR agreements entered into during the first six months of fiscal 2018 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[1] | Q3 2018[2] | 1,600 | 7.1 | 1.0 | 8.1 |

(1) The fair market value of the initial 7.1 million shares on the date of delivery was $1.3 billion and is included in treasury stock as of July 29, 2018, with the remaining $268 million included in paid-in capital.

(2) We received an additional 1.0 million shares upon termination of the ASR agreement in August 2018.

See Note 6 to the consolidated financial statements in the 2017 Form 10-K for further discussion.

5. 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 July 29, 2018 Using | | | Fair Value at January 28, 2018 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 | $ | $ 231 | $ — | $ | $ 235 | $ — |
| Derivative agreements - liabilities | — | (20) | — | — | (12) | — |
| Total | $ | $ 211 | $ — | $ | $ 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).

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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 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 | July 29, 2018 Fair Value (Level 1) | Carrying Value | January 28, 2018 Fair Value (Level 1) | Carrying Value |
|---|---|---|---|---|
| Senior notes | $25,625 | $24,484 | $26,617 | $24,485 |

6. WEIGHTED AVERAGE COMMON SHARES

The reconciliation of our basic to diluted weighted average common shares follows.

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| in millions | July 29, 2018 | July 30, 2017 | July 29, 2018 | July 30, 2017 |
| Basic weighted average common shares | 1,144 | 1,183 | 1,148 | 1,191 |
| Effect of potentially dilutive securities | 5 | 6 | 6 | 6 |
| Diluted weighted average common shares | 1,149 | 1,189 | 1,154 | 1,197 |
| Anti-dilutive securities excluded from diluted weighted average common shares [1] | — | 1 | — | 1 |

(1) Represent options that were granted under our employee stock plans to purchase shares of our common stock.

7. COMMITMENTS AND CONTINGENCIES

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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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors

The Home Depot, Inc.:

Results of Review of Interim Financial Information

We have reviewed the Consolidated Balance Sheet of The Home Depot, Inc. and Subsidiaries (the "Company") as of July 29, 2018, the related Consolidated Statements of Earnings and Comprehensive Income for the three-month and six-month periods ended July 29, 2018 and July 30, 2017, the related Consolidated Statements of Cash Flows for the six-month periods ended July 29, 2018 and July 30, 2017, and the related notes (collectively, the "Consolidated Interim Financial Information"). Based on our reviews, we are not aware of any material modifications that should be made to the Consolidated Interim Financial Information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Consolidated Balance Sheet of the Company as of January 28, 2018, and the related Consolidated Statements of Earnings, Comprehensive Income, Stockholders' Equity, and Cash Flows for the year then ended (not presented herein); and in our report dated March 22, 2018, we expressed an unqualified opinion on those Consolidated Financial Statements. In our opinion, the information set forth in the accompanying Consolidated Balance Sheet as of January 28, 2018, is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

Basis for Review Results

This Consolidated Interim Financial Information is the responsibility of the Company's management. 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 reviews in accordance with the standards of the PCAOB. A review of Consolidated Interim Financial Information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ KPMG LLP

Atlanta, Georgia

August 20, 2018

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Item 2. 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

Quarter to date and year to date highlights of our financial performance follow.

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| dollars in millions, except per share data | July 29, 2018 | July 30, 2017 | July 29, 2018 | July 30, 2017 |
| Net sales | $30,463 | $28,108 | $55,410 | $51,995 |
| Net earnings | 3,506 | 2,672 | 5,910 | 4,686 |
| Effective tax rate | 24.7 % | 36.6 % | 24.2 % | 36.0 % |
| Diluted earnings per share | $3.05 | $2.25 | $5.12 | $3.91 |
| Net cash provided by operating activities | | | $7,907 | $7,862 |
| Repurchases of common stock | | | 3,121 | 3,921 |

We reported net sales of $30.5 billion in the second quarter of fiscal 2018. Net earnings were $3.5 billion, or $3.05 per diluted share. For the first six months of fiscal 2018, net sales were $55.4 billion and net earnings were $5.9 billion, or $5.12 per diluted share.

We opened one new store in Mexico during the second quarter of fiscal 2018, for a total store count of 2,286 at the end of the quarter. As of July 29, 2018, a total of 305 of our stores, or 13.3%, were located in Canada and Mexico. For the second quarter of fiscal 2018, total sales per square foot were $504.20 and our inventory turnover ratio was 5.4 times.

We generated $7.9 billion of cash flow from operations during the first six months of fiscal 2018. This cash flow was used to pay $2.4 billion of dividends, repay $1.6 billion of short-term borrowings, fund cash payments of $3.1 billion for share repurchases, and fund $1.1 billion in capital expenditures.

During the first six months of fiscal 2018, we repurchased a total of 14.9 million shares of our common stock for $3.0 billion through two 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.

Our ROIC for the trailing twelve-month period was 37.9% at the end of the second quarter of 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.

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 and in the 2017 Form 10-K and with our MD&A included in the 2017 Form 10-K. 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.

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Fiscal 2018 and Fiscal 2017 Three Month Comparisons

| | Three Months Ended | | | |
|---|---|---|---|---|
| | July 29, 2018 | | July 30, 2017 | |
| dollars in millions | $ | % of Net Sales | $ | % of Net Sales |
| Net sales | $30,463 | | $28,108 | |
| Gross profit | 10,365 | 34.0 % | 9,461 | 33.7 % |
| Operating expenses: | | | | |
| Selling, general and administrative | 5,004 | 16.4 | 4,549 | 16.2 |
| Depreciation and amortization | 460 | 1.5 | 449 | 1.6 |
| Total operating expenses | 5,464 | 17.9 | 4,998 | 17.8 |
| Operating income | 4,901 | 16.1 | 4,463 | 15.9 |
| Interest and other (income) expense: | | | | |
| Interest and investment income | (26) | (0.1) | (16) | (0.1) |
| Interest expense | 272 | 0.9 | 265 | 0.9 |
| Interest and other, net | 246 | 0.8 | 249 | 0.9 |
| Earnings before provision for income taxes | 4,655 | 15.3 | 4,214 | 15.0 |
| Provision for income taxes | 1,149 | 3.8 | 1,542 | 5.5 |
| Net earnings | $3,506 | 11.5 % | $2,672 | 9.5 % |

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

| Selected financial and sales data: | Three Months Ended July 29, 2018 | July 30, 2017 | % Change |
|---|---|---|---|
| Comparable sales (% change)[1] | 8.0% | 6.3% | N/A |
| Comparable customer transactions (% change)[2] | 2.9% | 2.6% | N/A |
| Comparable average ticket (% change)[2] | 4.9% | 3.6% | N/A |
| Customer transactions (in millions)[2] | 455.4 | 441.8 | 3.1% |
| Average ticket[2] | $66.20 | $63.05 | 5.0% |
| Sales per square foot[2] | $504.20 | $464.38 | 8.6% |
| Diluted earnings per share | $3.05 | $2.25 | 35.6% |

(1) The calculation for the three months ended July 30, 2017 does not include results for Interline, which was acquired in the fiscal year ended January 31, 2016.

(2) Does not include results for Interline.

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

Net Sales. Net sales for the second quarter of fiscal 2018 increased 8.4% to $30.5 billion from $28.1 billion in the comparable prior-year period. The increase in net sales in the second quarter of fiscal 2018 primarily reflected the impact of positive comparable sales driven by an increase in comparable average ticket and comparable customer transactions. Net sales also benefited $33 million as a result of the adoption of ASU No. 2014-09. See Note 1 to our consolidated financial statements for further discussion.

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 after we own them for greater than 52 weeks (with

the exception of Interline, which is excluded from comparable sales for periods prior to fiscal 2018). Comparable sales is intended only as supplemental information and is not a substitute for net sales presented in accordance with GAAP.

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Total comparable sales increased 8.0% in the second quarter of fiscal 2018. The increase in comparable sales reflects a number of factors, including recovery of spring sales that were delayed due to extreme and extended winter weather as well as the execution of our strategy and broad-based growth across our stores and online. All of our departments, except for Lighting, posted positive comparable sales in the second quarter of fiscal 2018. Comparable sales for our Lumber, Indoor Garden, Outdoor Garden, Electrical, Tools, and Appliances merchandising departments were above the Company average in the second quarter of fiscal 2018. Comparable sales for Lighting were negative primarily due to LED price deflation. Our comparable average ticket increased 4.9% during the second quarter of fiscal 2018, primarily due to strong sales in big ticket purchases, such as vinyl plank flooring and appliances, strong sales to our professional customers, and index-based commodity price inflation. The 2.9% growth in comparable customer transactions for the second quarter of fiscal 2018 benefited from customer traffic that was delayed due to extreme winter weather in the first quarter of 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 7.5% of net sales and grew 25.7% during the second quarter of fiscal 2018.

Gross Profit. Gross profit increased 9.6% to $10.4 billion in the second quarter of fiscal 2018 from $9.5 billion in the comparable prior-year period. Gross profit as a percent of net sales, or gross profit margin, was 34.0% for the second quarter of fiscal 2018 compared to 33.7% for the second quarter of fiscal 2017. The increase in gross profit margin for the second quarter of fiscal 2018 primarily reflected $152 million of benefit from the adoption of ASU No. 2014-09 and expansion due to the net result of a number of factors including sales mix and the impact of recent acquisitions. These factors were partially offset by higher transportation and fuel costs in our supply chain.

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

Selling, General & Administrative. SG&A increased 10.0% to $5.0 billion in the second quarter of fiscal 2018 from $4.5 billion in the comparable prior-year period. As a percent of net sales, SG&A was 16.4% for the second quarter of fiscal 2018 compared to 16.2% for the second quarter of fiscal 2017. The increase in SG&A as a percent of net sales for the second quarter of fiscal 2018 reflected an increase of $152 million from the adoption of ASU No. 2014-09 and incremental investments made in the business, partially offset by expense leverage resulting from the positive comparable sales environment and continued expense control.

Depreciation and Amortization. Depreciation and amortization increased 2.4% to $460 million in the second quarter of fiscal 2018 from $449 million in the comparable prior-year period. As a percent of net sales, depreciation and amortization was 1.5% in the second quarter of fiscal 2018 compared to 1.6% in the second quarter of fiscal 2017. The decrease in depreciation and amortization as a percent of net sales primarily reflected leverage resulting from the positive comparable sales environment and timing of asset additions, partially offset by certain investments in shorter-lived assets.

Interest and Other, net. Interest and other, net, was $246 million in the second quarter of fiscal 2018 compared to $249 million in the comparable prior-year period. Interest and other, net, as a percent of net sales was 0.8% for the second quarter of fiscal 2018 and 0.9% for the second quarter of fiscal 2017. The decrease as a percent of net sales primarily reflected expense leverage resulting from the positive comparable sales environment and higher interest income, partially offset by higher interest expense resulting from higher debt balances.

Provision for Income Taxes. Our combined effective income tax rate was 24.7% for the second quarter of fiscal 2018 compared to 36.6% for the second quarter of fiscal 2017. The decrease in the provision for income taxes in the second quarter of fiscal 2018 was primarily attributable to the enactment of the Tax Act.

Diluted Earnings per Share. Diluted earnings per share were $3.05 for the second quarter of fiscal 2018 compared to $2.25 for the second quarter of fiscal 2017. Diluted earnings per share for the second quarter of fiscal 2018 reflected a benefit of $0.47 per diluted share resulting from enactment of the Tax Act.

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Fiscal 2018 and Fiscal 2017 Six Month Comparisons

| | Six Months Ended | | | |
|---|---|---|---|---|
| | July 29, 2018 | | July 30, 2017 | |
| dollars in millions | $ | % of Net Sales | $ | % of Net Sales |
| Net sales | $55,410 | | $51,995 | |
| Gross profit | 18,982 | 34.3 % | 17,615 | 33.9 % |
| Operating expenses: | | | | |
| Selling, general and administrative | 9,783 | 17.7 | 8,910 | 17.1 |
| Depreciation and amortization | 917 | 1.7 | 893 | 1.7 |
| Total operating expenses | 10,700 | 19.3 | 9,803 | 18.9 |
| Operating income | 8,282 | 14.9 | 7,812 | 15.0 |
| Interest and other (income) expense: | | | | |
| Interest and investment income | (48) | (0.1) | (29) | (0.1) |
| Interest expense | 533 | 1.0 | 519 | 1.0 |
| Interest and other, net | 485 | 0.9 | 490 | 0.9 |
| Earnings before provision for income taxes | 7,797 | 14.1 | 7,322 | 14.1 |
| Provision for income taxes | 1,887 | 3.4 | 2,636 | 5.1 |
| Net earnings | $5,910 | 10.7 % | $4,686 | 9.0 % |

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

| Selected financial and sales data: | Six Months Ended July 29, 2018 | July 30, 2017 | % Change |
|---|---|---|---|
| Comparable sales (% change)[1] | 6.2% | 6.0% | N/A |
| Comparable customer transactions (% change)[2] | 0.9% | 2.1% | N/A |
| Comparable average ticket (% change)[2] | 5.3% | 3.8% | N/A |
| Customer transactions (in millions)[2] | 831.2 | 822.6 | 1.1% |
| Average ticket[2] | $66.12 | $62.74 | 5.4% |
| Sales per square foot[2] | $458.07 | $429.17 | 6.7% |
| Diluted earnings per share | $5.12 | $3.91 | 30.9% |

(1) The calculation for the six months ended July 30, 2017 does not include results for Interline, which was acquired in the fiscal year ended January 31, 2016.

(2) Does not include results for Interline.

Sales.

Net Sales. For the first six months of fiscal 2018, net sales increased 6.6% to $55.4 billion from $52.0 billion in the comparable prior-year period. The increase in net sales for the first six months of fiscal 2018 primarily reflects the impact of positive comparable store sales driven by an increase in average ticket growth and increased customer transactions. Net sales also benefited $66 million as a result of the adoption of ASU No. 2014-09. See Note 1 to our consolidated financial statements for further discussion.

Comparable Sales. For the first six months of fiscal 2018, total comparable sales increased 6.2%. This increase reflects a number of factors, including the execution of our strategy and broad-based growth across our stores. During the first six months of fiscal 2018, all of our departments, except for Lighting, posted positive comparable sales. Comparable sales for our Lumber, Electrical, Appliances, Tools, Décor, Plumbing, and Flooring product categories were above the Company average for the first six months of fiscal 2018. Comparable sales for Lighting were negative

primarily due to LED price deflation. Our comparable store average ticket increased 5.3% for the first six months of fiscal 2018, due in part to strong sales in big ticket purchases in appliances and vinyl plank flooring. Online sales represented 7.5% of net sales and grew 23.1% during the first six months of fiscal 2018.

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Gross Profit. For the first six months of fiscal 2018, gross profit increased 7.8% to $19.0 billion from $17.6 billion in the comparable prior-year period. Gross profit margin was 34.3% for the first six months of fiscal 2018 compared to 33.9% for the first six months of fiscal 2017. The increase in gross profit margin for the first six months of fiscal 2018 primarily reflected $283 million of benefit from the adoption of ASU No. 2014-09, partially offset by higher transportation and fuel costs in our supply chain.

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

Selling, General & Administrative. SG&A increased 9.8% to $9.8 billion for the first six months of fiscal 2018, from $8.9 billion in the comparable prior-year period. As a percent of net sales, SG&A was 17.7% for the first six months of fiscal 2018 compared to 17.1% for the first six months of fiscal 2017. The increase in SG&A as a percent of net sales for the first six months of fiscal 2018 reflected an increase of $283 million from the adoption of ASU No. 2014-09 and incremental investments made in the business, partially offset by expense leverage resulting from the positive comparable sales environment and continued expense control.

Depreciation and Amortization. Depreciation and amortization was $917 million for the first six months of fiscal 2018 compared to $893 million in the comparable prior-year period. As a percent of net sales, it was unchanged at 1.7% for the first six months of both fiscal 2018 and fiscal 2017 and reflected offsetting effects of leverage resulting from the positive comparable sales environment, timing of asset additions and certain investments.

Interest and Other, net. For the first six months of fiscal 2018, interest and other, net was $485 million compared to $490 million for the first six months of fiscal 2017. As a percent of net sales, it was 0.9% for the first six months of both fiscal 2018 and fiscal 2017 and reflected offsetting effects of expense leverage resulting from the positive comparable sales environment and higher interest income and higher interest expense resulting from higher short-term and long-term debt balances.

Provision for Income Taxes. Our combined effective income tax rate was 24.2% for the first six months of fiscal 2018 compared to 36.0% for the first six months of fiscal 2017. The decrease in the provision for income taxes in fiscal 2018 was primarily attributable to the enactment of the Tax Act.

Diluted Earnings per Share. Diluted earnings per share were $5.12 for the first six months of fiscal 2018, compared to $3.91 for the first six months of fiscal 2017. Diluted earnings per share for the first six months of fiscal 2018 included a benefit of $0.79 per diluted share resulting from the enactment 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 the average of beginning and ending long-term debt (including current installments) and equity for the most recent twelve-month period.

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

| dollars in millions | Twelve Months Ended July 29, 2018 | July 30, 2017 |
|---|---|---|
| Net earnings | $9,854 | $8,399 |
| Interest and other, net | 978 | 961 |
| Provision for income taxes | 4,319 | 4,699 |
| Operating income | 15,151 | 14,059 |
| Income tax adjustment [(1)] | (4,545) | (5,080) |
| NOPAT | $10,606 | $8,979 |
| Average debt and equity | $28,014 | $28,061 |
| ROIC | 37.9% | 32.0% |

(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

Cash and Cash Equivalents

At July 29, 2018, we had $3.5 billion in cash and cash equivalents, of which $1.6 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.

As we accelerate our investments in the business within our disciplined approach to capital allocation, we expect capital expenditures of approximately $2.5 billion in fiscal 2018.

Debt and Derivatives

We have commercial paper programs that allow for borrowings up to $3.0 billion. All of our short-term borrowings in the first six months of fiscal 2018 were under these commercial paper programs, and the maximum amount outstanding at any time was $2.4 billion. In connection with these programs, we have back-up credit facilities with a consortium of banks for borrowings up to $3.0 billion. Our back-up credit facilities consist of a five-year $2.0 billion credit facility scheduled to expire in December 2022 and a 364-day $1.0 billion credit facility scheduled to expire in December 2018. At July 29, 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 July 29, 2018, there were no 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 currency exchange rates and interest rates on certain long-term debt. See Note 5 to our consolidated financial statements for further discussion.

Share Repurchases

In December 2017, our Board of Directors authorized a new $15.0 billion share repurchase program that replaced the previous authorization. In the first six months of fiscal 2018, we repurchased 14.9 million shares of our common stock for $3.0 billion through two ASR agreements and open market transactions. See Note 4 to our consolidated financial

statements for further discussion on the ASR agreements.

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Cash Flows Summary

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 $45 million in the first six months of fiscal 2018 compared to the same period last year and was primarily driven by an increase in net earnings, offset by higher cash outflows associated with changes in working capital. The increase in net earnings resulted from higher comparable sales and expense leverage in the first six months of fiscal 2018, as well as a lower effective income tax rate in fiscal 2018 resulting from the enactment of the Tax Act.

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 capital expenditures for investments in our business of $1.1 billion during the first six months of fiscal 2018 compared to $846 million of capital expenditures and $268 million for a business acquisition in the comparable prior-year period.

Financing Activities. Cash used in financing activities primarily reflected:

- $3.1 billion of share repurchases, $2.4 billion of cash dividends paid, and $1.6 billion of repayments of short-term borrowings in the first six months of fiscal 2018, and
- $3.9 billion of share repurchases, $2.1 billion of cash dividends paid, and $710 million of repayments of short-term borrowings in the first six months of fiscal 2017, partially offset by $2.0 billion of net proceeds from long-term borrowings.

Critical Accounting Policies

There were no changes during fiscal 2018 to our critical accounting policies as disclosed in the 2017 Form 10-K. Our significant accounting policies are disclosed in Note 1 to our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Our exposure to market risks results primarily from fluctuations in interest rates. We are also exposed to risks from foreign currency exchange rate fluctuations on the translation of our foreign operations into U.S. dollars and on the purchase of goods by these foreign operations that are not denominated in their local currencies. There have been no material changes to our exposure to market risks from those disclosed in the 2017 Form 10-K.

Item 4. Controls and Procedures.

Under the direction and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) and concluded that our disclosure controls and procedures were effective as of July 29, 2018. There has been no change in our internal control over financial reporting during the fiscal quarter ended July 29, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Except as set forth below, there were no material changes during the second quarter of fiscal 2018 to our disclosure in Item 3 of our 2017 Form 10-K.

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.

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As previously reported, 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. In the second quarter of fiscal 2018, we resolved the matter with SCAQMD, and the vendor from whom we purchased the products paid a settlement on our behalf.
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.

Item 1A. Risk Factors.
In addition to the other information set forth in this report, you should carefully consider the factors discussed under Item 1A, "Risk Factors" and elsewhere in the 2017 Form 10-K. These risks and uncertainties could materially and adversely affect our business, consolidated financial condition, results of operations, or cash flows. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently do not consider material to our business. There have been no material changes in the risk factors discussed in the 2017 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
Issuer Purchases of Equity Securities
Since the inception of our initial share repurchase program in fiscal 2002 through the end of the second quarter of fiscal 2018, we have repurchased shares of our common stock having a value of approximately $78.1 billion. The number and average price of shares purchased in each fiscal month of the second 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] |
|---|---|---|---|---|
| April 30, 2018 – May 27, 2018 | 2,479,949 | $182.44 | 2,475,046 | $11,645,018,945 |
| May 28, 2018 – June 24, 2018[3] | 7,683,329 | 186.51 | 7,680,638 | 9,945,001,669 |
| June 25, 2018 – July 29, 2018 | 1,778 | 199.17 | — | 9,945,001,669 |
| Total | 10,165,056 | 185.52 | 10,155,684 | |

(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 that replaced the previous authorization. The program does not have a prescribed expiration date.
(3) In the second quarter of fiscal 2018, we paid $1.6 billion under an ASR agreement and received an initial delivery of 7.1 million shares. See Note 4 to our consolidated financial statements for further discussion.
Sales of Unregistered Securities
During the second quarter of fiscal 2018, we issued 4,055 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 second 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 second quarter of fiscal 2018, we credited 1,057 deferred stock units to participant accounts under the Restoration Plan pursuant to an exemption from the registration requirements of the Securities Act for involuntary,

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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. Exhibits.

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

| Exhibit | | Description |
|---|---|---|
| 3.1 | * | Amended and Restated Certificate of Incorporation of The Home Depot, Inc. [Form 10-Q filed on September 1, 2011, Exhibit 3.1] |
| 3.2 | * | By-Laws of The Home Depot, Inc. (Amended and Restated Effective March 3, 2016). [Form 8-K filed on March 8, 2016, Exhibit 3.2] |
| 12.1 | | Statement of Computation of Ratio of Earnings to Fixed Charges. |
| 15.1 | | Acknowledgement of Independent Registered Public Accounting Firm, dated August 20, 2018. |
| 31.1 | | Certification of the Chief Executive Officer and President pursuant to Rule 13a-14(a). |
| 31.2 | | Certification of the Chief Financial Officer and Executive Vice President – Corporate Services pursuant to Rule 13a-14(a). |
| 32.1 | | Certification of Chief Executive Officer and President furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | | Certification of Chief Financial Officer and Executive Vice President – Corporate Services furnished pursuant to 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 |

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SIGNATURES

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

THE HOME DEPOT, INC.
(Registrant)

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

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

Date: August 20, 2018