HOME DEPOT INC
Form 10-K
March 22, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ý 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
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 ý 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 ý
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 ý 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 ý 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 ý 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 ý

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

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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.

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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

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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

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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

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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.

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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.

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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

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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

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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

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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

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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.

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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.

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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

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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.

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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.

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

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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:

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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		