

Hi, I'm  
**ROSA**



We Are The Home Depot



More saving. More doing.®

**ANNUAL REPORT 2018**

# LETTER TO SHAREHOLDERS



Dear Shareholders:

Fiscal 2018 was an exciting year for our company as we began our accelerated investment program to position the business for long-term success. At our Investor & Analyst Conference in December of 2017, we outlined our strategic vision to create the “One Home Depot” experience. We believe our One Home Depot strategy will further unlock the frictionless shopping experience that we envisioned for our customers when we started talking about interconnected retail nearly ten years ago. Back then, we were deliberate in our choice of the word interconnected because we believed that for our customers, a great shopping experience is one that allows them to blend seamlessly the digital and physical worlds.

Our strategic efforts are yielding solid returns. Now more than ever, customers view us as One Home Depot rather than a brick & mortar retailer with a website. While our stores remain the hub of our business, our data tells us that many of our in-store sales are influenced by an online visit and nearly 50 percent of all online U.S. orders are picked up inside our stores. As our customers continue to blend the channels of engagement with The Home Depot, we are investing to drive the One Home Depot experience. Last year we began a multi-year, approximately \$11 billion investment program in our stores, our associates, our digital experience, and our supply chain.

As I reflect on the first year of our investment journey, I am happy to report that we are on track with respect to our strategic priorities. Although it is early days with a lot of work ahead, I would like to take this opportunity to share some 2018 investment highlights.

## INVESTMENT HIGHLIGHTS

We believe that when a customer comes to one of our physical stores, it needs to be a great experience. Our customers asked us to reduce several pain points around store navigation and checkout and we made great strides in 2018. We implemented our enhanced wayfinding sign and store refresh package in nearly 1,300 stores, ahead of our initial plan. We also made solid progress on the rollout of our re-designed front-end areas to facilitate faster checkout and are adding automated lockers that make picking up an online order easier and more convenient. These in-store changes are resonating, as customer service scores for checkout time satisfaction and ease of online order pickup have increased.

Our best-in-class customer experience is delivered by our orange-aproned associates who serve our customers every day. The Company’s culture, opportunities for career growth, competitive wages and benefits are all part of attracting and retaining talent. Additionally, we are implementing tools that generally make working at The Home Depot a better experience. The enhancement of our in-store order management system, Order Up, and the rollout of our new Overhead Management application on associate FIRST phones, have simplified operations and increased associate productivity. These applications result in less time spent learning and navigating our systems, which means more time in the aisles engaging our customers.

Our enhanced store and associate experience is complemented by investments we are making in an interconnected, digital customer experience. In 2018 we continued to invest in our website and mobile applications, improving search capabilities, site functionality, and product content. This ongoing focus on our digital properties, which fuels the interconnected experience, continues to yield improved customer satisfaction scores, better conversion and increased sales.

Delivering a best-in-class interconnected shopping experience encompasses more than our digital properties and physical store assets. As part of our investment program, we committed to a five year, \$1.2 billion investment in our supply chain to create the fastest, most efficient delivery network for home improvement goods. When finished, our expanded network will enable same-day and next-day delivery capabilities for 90 percent of the U.S. population for both parcel and big and bulky products. We told you that 2018 would be the year of the pilot as we test and learn with new fulfillment centers, and we are now live with a number of these pilot facilities.

As we work on our longer-term supply chain build out, we remain focused on meeting our customer's immediate delivery needs. We made great progress with our store delivery enhancements in 2018, rolling out car and van Express Delivery offerings that enable same-day and next-day delivery of store goods to over 40 percent of the U.S. population for car delivery and over 70 percent coverage for van.

I am encouraged by the progress we have made over the past twelve months, and I am excited about the work and opportunities ahead as we remain focused on enhancing the customer experience by investing in our business.

## PRODUCT AUTHORITY

While our journey towards the One Home Depot vision does involve a great deal of change, our passion to maintain our position as the number one retailer in product authority for home improvement never will. We know that we must keep pace with changing customer expectations. Innovation, localization and speed to market are critical, and we are investing to achieve a first to market approach by arming our merchants with better tools, leveraging data to offer greater personalization, and driving a deeper level of collaboration with our supplier partners.

Our professional and do-it-yourself customers shop at The Home Depot because we offer products and services at great values. Our supplier partners work with us to bring new product innovation that saves our customers time and money. We will continue to be the customer's advocate for value, delivering the best products and services at the best value, every single day.

## VALUE FOR ALL STAKEHOLDERS

Underpinning our strategy to create the One Home Depot experience is our desire to create value for all stakeholders. This includes our shareholders, our associates, our supplier partners and the communities that we serve. As we invest to unlock the power of a truly interconnected, One Home Depot, we are enhancing our already strong foundation in order to continue to deliver value for years to come.

While implementing year one of our investment program, our team delivered another year of record results. During fiscal 2018, sales grew 7.2 percent to \$108.2 billion, with comparable sales growth of 5.2 percent for the total company and 5.4 percent in the U.S. We saw sales growth in all of our U.S. regions, Canada and Mexico. Our fiscal 2018 net earnings were \$11.1 billion, or \$9.73 per share, a 33.5 percent increase in earnings per share from the prior year.

Our capital allocation philosophy is straightforward. We will continue to invest in the business to drive growth as well as productivity and efficiency. We look to return a meaningful percentage of earnings to our shareholders through dividends and share repurchases. In fact, during fiscal 2018, after investing in the business, we returned \$14.7 billion to our shareholders in the form of dividends and share repurchases.

As we look ahead, we expect our investments will result in continued growth and profitability. Our strong performance in fiscal 2018 positions us well with respect to our 2020 financial targets. By fiscal 2020 we are aiming to grow our sales to a range of \$115 billion to \$120 billion, with an operating margin range of 14.4 percent to 15.0 percent, and a return on invested capital<sup>1</sup> of more than 40 percent.

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<sup>1</sup> Return on invested capital, or ROIC, is defined as net operating profit after tax, a non-GAAP financial measure, for the most recent twelve-month period, divided by the average of beginning and ending long-term debt (including current installments) and equity for the most recent twelve-month period. For a reconciliation of net operating profit after tax to net earnings, the most comparable GAAP financial measure, and our calculation of ROIC, see "Non-GAAP Financial Measures" on page 24 of the Annual Report on Form 10-K for the fiscal year ended February 3, 2019.

## LIVING OUR VALUES

Increased our commitment to

# \$500M

for veteran causes by 2025

# 35,000

associates are U.S. military veterans or reservists

Committed to training

# 20,000

skilled tradespeople over the next 10 years

# \$13M

donated to associates in need through The Homer Fund in 2018

# 95%

of associates donated to The Homer Fund

## OUR CULTURE

In 2019 we will celebrate our 40th anniversary. In 1979 our founders established the culture of The Home Depot, and it remains our foundation. The culture centers around our values and a leadership construct. It is the lens through which we evaluate and manage important environmental, social and governance (“ESG”) issues that impact our business. We organize our approach to ESG around three key pillars: Focus on People, Strengthen Communities and Operate Sustainably.

We focus on people by making The Home Depot a great place to work. For us that means fostering an environment centered on our core value of respect for all people, where diversity and inclusion are celebrated, and people have the opportunity to develop and advance their careers. Our more than 400,000 orange-blooded associates live our culture every day. They are our single-greatest asset, and they differentiate us in the marketplace.

Our commitment to strengthen the communities in which we operate is also rooted in one of our eight core values – doing the right thing. When natural disasters strike, as they did once again in 2018, we work tirelessly to deliver aid to those impacted. Beyond disaster relief, we continued to positively impact the lives of military veterans and their families, and in 2018 we increased our commitment to \$500 million dollars for veteran causes by 2025.

In 2018 The Home Depot Foundation also expanded its mission beyond veteran causes and natural disasters, committing \$50 million to train 20,000 tradespeople over the next 10 years in order to fill the growing skilled labor gap in the U.S.

Our commitment to operate sustainably goes back decades. As the world's largest home improvement retailer, we believe that we are in a unique position to source products and foster ideas that not only help us operate sustainably as a company, but also reduce the environmental impact of our customers. In 2018 we continued our fantastic progress in this area. In recognition of these efforts, CDP, an environmental impact non-profit, named The Home Depot to its Climate Change “A” List for actions to cut carbon emissions and mitigate climate risks.

As we look forward to 2019, I am incredibly excited about what lies ahead for us as a company, but I am also reflective of how far we have come. As we celebrate the 40th anniversary of our first store opening, it is worth noting how the company has evolved and changed throughout the years, while at the same time, staying true to a simple truth inherited from our founders: “If you take care of the associates, they will take care of the customer and everything else will take care of itself.”



Craig Menear  
March 28, 2019

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended February 3, 2019

or

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

For the transition period from to

Commission file number 1-8207



**THE HOME DEPOT, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

State or other jurisdiction of incorporation or organization

**2455 Paces Ferry Road, Atlanta, Georgia 30339**

(Address of principal executive offices) (Zip Code)

**95-3261426**

(I.R.S. Employer Identification No.)

Registrant's telephone number, including area code:

**(770) 433-8211**

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

Title of each class

Name of each exchange on which registered

Common Stock, \$0.05 Par Value Per Share

New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Emerging growth company  If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of voting common stock held by non-affiliates of the registrant on July 29, 2018 was \$225.3 billion.

The number of shares outstanding of the registrant's common stock as of March 8, 2019 was 1,103,903,507 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's proxy statement for the 2019 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K to the extent described herein.

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**COMMONLY USED OR DEFINED TERMS**

<b>Term</b>	<b>Definition</b>
ASR	Accelerated share repurchase
ASU	Accounting Standards Update
BODFS	Buy Online, Deliver From Store
BOPIS	Buy Online, Pick-up In Store
BORIS	Buy Online, Return In Store
BOSS	Buy Online, Ship to Store
CDP	The not-for-profit organization formerly known as the Carbon Disclosure Project
CFL	Compact fluorescent light
Comparable sales	As defined in the <a href="#">Results of Operations - Sales</a> section of MD&A
DIFM	Do-It-For-Me
DIY	Do-It-Yourself
EH&S	Environmental, Health, and Safety
EPA	U.S. Environmental Protection Agency
ESPP	Employee Stock Purchase Plan
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
fiscal 2013	Fiscal year ended February 2, 2014 (includes 52 weeks)
fiscal 2014	Fiscal year ended February 1, 2015 (includes 52 weeks)
fiscal 2015	Fiscal year ended January 31, 2016 (includes 52 weeks)
fiscal 2016	Fiscal year ended January 29, 2017 (includes 52 weeks)
fiscal 2017	Fiscal year ended January 28, 2018 (includes 52 weeks)
fiscal 2018	Fiscal year ended February 3, 2019 (includes 53 weeks)
fiscal 2019	Fiscal year ended February 2, 2020 (includes 52 weeks)
FSC	Forest Stewardship Council
GAAP	U.S. generally accepted accounting principles
GRI	Global Reporting Initiative
Interline	Interline Brands, Inc.
IRS	Internal Revenue Service
LIBOR	London interbank offered rate
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MRO	Maintenance, repair, and operations
NOPAT	Net operating profit after tax
NYSE	New York Stock Exchange
PLCC	Private label credit card
Pro	Professional customer
Restoration Plan	Home Depot FutureBuilder Restoration Plan
ROIC	Return on invested capital
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
SG&A	Selling, general, and administrative
Tax Act	Tax Cuts and Jobs Act of 2017

**Item 8. Financial Statements and Supplementary Data.**

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## Report of Independent Registered Public Accounting Firm

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

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying Consolidated Balance Sheets of The Home Depot, Inc. and Subsidiaries as of February 3, 2019 and January 28, 2018, and the related Consolidated Statements of Earnings, Comprehensive Income, Stockholders' Equity, and Cash Flows for each of the fiscal years in the three-year period ended February 3, 2019, and the related notes (collectively, the "Consolidated Financial Statements"). In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the financial position of The Home Depot, Inc. and Subsidiaries as of February 3, 2019 and January 28, 2018, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended February 3, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), The Home Depot, Inc.'s internal control over financial reporting as of February 3, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 28, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### *Basis for Opinion*

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

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

/s/ KPMG LLP

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

Atlanta, Georgia  
March 28, 2019

**THE HOME DEPOT, INC.**  
**CONSOLIDATED BALANCE SHEETS**

<i>in millions, except per share data</i>	February 3, 2019	January 28, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,778	\$ 3,595
Receivables, net	1,936	1,952
Merchandise inventories	13,925	12,748
Other current assets	890	638
Total current assets	<u>18,529</u>	<u>18,933</u>
Net property and equipment	22,375	22,075
Goodwill	2,252	2,275
Other assets	847	1,246
Total assets	<u>\$ 44,003</u>	<u>\$ 44,529</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Short-term debt	\$ 1,339	\$ 1,559
Accounts payable	7,755	7,244
Accrued salaries and related expenses	1,506	1,640
Sales taxes payable	656	520
Deferred revenue	1,782	1,805
Income taxes payable	11	54
Current installments of long-term debt	1,056	1,202
Other accrued expenses	2,611	2,170
Total current liabilities	<u>16,716</u>	<u>16,194</u>
Long-term debt, excluding current installments	26,807	24,267
Deferred income taxes	491	440
Other long-term liabilities	1,867	2,174
Total liabilities	<u>45,881</u>	<u>43,075</u>
Common stock, par value \$0.05; authorized: 10,000 shares; issued: 1,782 at February 3, 2019 and 1,780 shares at January 28, 2018; outstanding: 1,105 shares at February 3, 2019 and 1,158 shares at January 28, 2018	89	89
Paid-in capital	10,578	10,192
Retained earnings	46,423	39,935
Accumulated other comprehensive loss	(772)	(566)
Treasury stock, at cost, 677 shares at February 3, 2019 and 622 shares at January 28, 2018	(58,196)	(48,196)
Total stockholders' (deficit) equity	<u>(1,878)</u>	<u>1,454</u>
Total liabilities and stockholders' equity	<u>\$ 44,003</u>	<u>\$ 44,529</u>

See accompanying notes to consolidated financial statements.

**THE HOME DEPOT, INC.**  
**CONSOLIDATED STATEMENTS OF EARNINGS**

<i>in millions, except per share data</i>	Fiscal 2018	Fiscal 2017	Fiscal 2016
Net sales	\$ 108,203	\$ 100,904	\$ 94,595
Cost of sales	71,043	66,548	62,282
Gross profit	<u>37,160</u>	<u>34,356</u>	<u>32,313</u>
Operating expenses:			
Selling, general and administrative	19,513	17,864	17,132
Depreciation and amortization	1,870	1,811	1,754
Impairment loss	247	—	—
Total operating expenses	<u>21,630</u>	<u>19,675</u>	<u>18,886</u>
Operating income	<u>15,530</u>	<u>14,681</u>	<u>13,427</u>
Interest and other (income) expense:			
Interest and investment income	(93)	(74)	(36)
Interest expense	1,051	1,057	972
Other	16	—	—
Interest and other, net	<u>974</u>	<u>983</u>	<u>936</u>
Earnings before provision for income taxes	14,556	13,698	12,491
Provision for income taxes	3,435	5,068	4,534
Net earnings	<u>\$ 11,121</u>	<u>\$ 8,630</u>	<u>\$ 7,957</u>
Basic weighted average common shares	1,137	1,178	1,229
Basic earnings per share	\$ 9.78	\$ 7.33	\$ 6.47
Diluted weighted average common shares	1,143	1,184	1,234
Diluted earnings per share	\$ 9.73	\$ 7.29	\$ 6.45

*Fiscal 2018 includes 53 weeks. Fiscal 2017 and fiscal 2016 include 52 weeks.*

*See accompanying notes to consolidated financial statements.*

**THE HOME DEPOT, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<i>in millions</i>	Fiscal 2018	Fiscal 2017	Fiscal 2016
Net earnings	\$ 11,121	\$ 8,630	\$ 7,957
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(267)	311	(3)
Cash flow hedges, net of tax	53	(1)	34
Other	8	(9)	—
Total other comprehensive (loss) income	(206)	301	31
Comprehensive income	<u>\$ 10,915</u>	<u>\$ 8,931</u>	<u>\$ 7,988</u>

*Fiscal 2018 includes 53 weeks. Fiscal 2017 and fiscal 2016 include 52 weeks.*

*See accompanying notes to consolidated financial statements.*

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

<i>in millions</i>	Fiscal 2018	Fiscal 2017	Fiscal 2016
<b>Common Stock:</b>			
Balance at beginning of year	\$ 89	\$ 88	\$ 88
Shares issued under employee stock plans	—	1	—
Balance at end of year	<u>89</u>	<u>89</u>	<u>88</u>
<b>Paid-in Capital:</b>			
Balance at beginning of year	10,192	9,787	9,347
Shares issued under employee stock plans	104	132	76
Tax effect of stock-based compensation	—	—	97
Stock-based compensation expense	282	273	267
Balance at end of year	<u>10,578</u>	<u>10,192</u>	<u>9,787</u>
<b>Retained Earnings:</b>			
Balance at beginning of year	39,935	35,519	30,973
Cumulative effect of accounting change	75	—	—
Net earnings	11,121	8,630	7,957
Cash dividends	(4,704)	(4,212)	(3,404)
Other	(4)	(2)	(7)
Balance at end of year	<u>46,423</u>	<u>39,935</u>	<u>35,519</u>
<b>Accumulated Other Comprehensive Income (Loss):</b>			
Balance at beginning of year	(566)	(867)	(898)
Foreign currency translation adjustments	(267)	311	(3)
Cash flow hedges, net of tax	53	(1)	34
Other	8	(9)	—
Balance at end of year	<u>(772)</u>	<u>(566)</u>	<u>(867)</u>
<b>Treasury Stock:</b>			
Balance at beginning of year	(48,196)	(40,194)	(33,194)
Repurchases of common stock	(10,000)	(8,002)	(7,000)
Balance at end of year	<u>(58,196)</u>	<u>(48,196)</u>	<u>(40,194)</u>
Total stockholders' (deficit) equity	<u>\$ (1,878)</u>	<u>\$ 1,454</u>	<u>\$ 4,333</u>

*Fiscal 2018 includes 53 weeks. Fiscal 2017 and fiscal 2016 include 52 weeks.  
See accompanying notes to consolidated financial statements.*

**THE HOME DEPOT, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>in millions</i>	Fiscal 2018	Fiscal 2017	Fiscal 2016
<b>Cash Flows from Operating Activities:</b>			
Net earnings	\$ 11,121	\$ 8,630	\$ 7,957
Reconciliation of net earnings to net cash provided by operating activities:			
Depreciation and amortization	2,152	2,062	1,973
Stock-based compensation expense	282	273	267
Impairment loss	247	—	—
Changes in receivables, net	33	139	(138)
Changes in merchandise inventories	(1,244)	(84)	(769)
Changes in other current assets	(257)	(10)	(48)
Changes in accounts payable and accrued expenses	743	352	446
Changes in deferred revenue	80	128	99
Changes in income taxes payable	(42)	29	109
Changes in deferred income taxes	26	92	(117)
Other operating activities	(103)	420	4
Net cash provided by operating activities	<u>13,038</u>	<u>12,031</u>	<u>9,783</u>
<b>Cash Flows from Investing Activities:</b>			
Capital expenditures, net of non-cash capital expenditures	(2,442)	(1,897)	(1,621)
Payments for businesses acquired, net	(21)	(374)	—
Proceeds from sales of property and equipment	33	47	38
Other investing activities	14	(4)	—
Net cash used in investing activities	<u>(2,416)</u>	<u>(2,228)</u>	<u>(1,583)</u>
<b>Cash Flows from Financing Activities:</b>			
(Repayments of) proceeds from short-term debt, net	(220)	850	360
Proceeds from long-term debt, net of discounts	3,466	2,991	4,959
Repayments of long-term debt	(1,209)	(543)	(3,045)
Repurchases of common stock	(9,963)	(8,000)	(6,880)
Proceeds from sales of common stock	236	255	218
Cash dividends	(4,704)	(4,212)	(3,404)
Other financing activities	(26)	(211)	(78)
Net cash used in financing activities	<u>(12,420)</u>	<u>(8,870)</u>	<u>(7,870)</u>
Change in cash and cash equivalents	(1,798)	933	330
Effect of exchange rate changes on cash and cash equivalents	(19)	124	(8)
Cash and cash equivalents at beginning of year	3,595	2,538	2,216
Cash and cash equivalents at end of year	<u>\$ 1,778</u>	<u>\$ 3,595</u>	<u>\$ 2,538</u>
<b>Supplemental Disclosures:</b>			
Cash paid for income taxes	\$ 3,774	\$ 4,732	\$ 4,623
Cash paid for interest, net of interest capitalized	1,035	991	924
Non-cash capital expenditures	248	150	179

*Fiscal 2018 includes 53 weeks. Fiscal 2017 and fiscal 2016 include 52 weeks.  
See accompanying notes to consolidated financial statements.*

**THE HOME DEPOT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business**

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

**Consolidation and Presentation**

Our consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Certain amounts in prior fiscal years have been reclassified to conform with the presentation adopted in the current fiscal year. Our fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31. Fiscal 2018 includes 53 weeks compared to fiscal 2017 and fiscal 2016, both of which include 52 weeks.

**Use of Estimates**

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses in preparing these financial statements in conformity with GAAP. Actual results could differ from these estimates.

**Cash Equivalents**

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

**Receivables**

The components of receivables, net, follow.

<i>in millions</i>	February 3, 2019	January 28, 2018
Card receivables	\$ 696	\$ 734
Rebate receivables	660	609
Customer receivables	284	261
Other receivables	296	348
Receivables, net	<u>\$ 1,936</u>	<u>\$ 1,952</u>

Card receivables consist of payments due from financial institutions for the settlement of credit card and debit card transactions. Rebate receivables represent amounts due from vendors for volume and co-op advertising rebates. Receivables due from customers relate to credit extended directly to certain customers in the ordinary course of business. The valuation reserve related to accounts receivable was not material to our consolidated financial statements at the end of fiscal 2018 or fiscal 2017.

**Merchandise Inventories**

The majority of our merchandise inventories are stated at the lower of cost (first-in, first-out) or market, as determined by the retail inventory method. As the inventory retail value is adjusted regularly to reflect market conditions, the inventory valued using the retail method approximates the lower of cost or market. Certain subsidiaries, including retail operations in Canada and Mexico, and distribution centers, record merchandise inventories at the lower of cost or net realizable value, as determined by a cost method. These merchandise inventories represent approximately 29% of the total merchandise inventories balance. We evaluate the inventory valued using a cost method at the end of each quarter to ensure that it is carried at the lower of cost or net realizable value. The valuation allowance for merchandise inventories valued under a cost method was not material to our consolidated financial statements at the end of fiscal 2018 or fiscal 2017.

Independent physical inventory counts or cycle counts are taken on a regular basis in each store and distribution center to ensure that amounts reflected in merchandise inventories are properly stated. Shrink (or in the case of

excess inventory, "swell") is the difference between the recorded amount of inventory and the physical inventory. We calculate shrink based on actual inventory losses occurring as a result of physical inventory counts during each fiscal period and estimated inventory losses occurring between physical inventory counts. The estimate for shrink occurring in the interim period between physical inventory counts is calculated on a store-specific basis based on recent shrink results and current trends in the business.

### **Property and Equipment, including Capitalized Lease Assets**

Buildings, furniture, fixtures, and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized using the straight-line method over the original term of the lease or the useful life of the improvement, whichever is shorter. The estimated useful lives of our property and equipment follow.

	<b>Life</b>
Buildings	5 – 45 years
Furniture, fixtures and equipment	2 – 20 years
Leasehold improvements	5 – 45 years

We capitalize certain costs related to the acquisition and development of software and amortize these costs using the straight-line method over the estimated useful life of the software, which is three to six years. Certain development costs not meeting the criteria for capitalization are expensed as incurred.

We evaluate our long-lived assets each quarter for indicators of potential impairment. Indicators of impairment include current period losses combined with a history of losses, our decision to relocate or close a store or other location before the end of its previously estimated useful life, or when changes in other circumstances indicate the carrying amount of an asset may not be recoverable. The evaluation for long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual store level. The assets of a store with indicators of impairment are evaluated for recoverability by comparing its undiscounted future cash flows with its carrying value. If the carrying value is greater than the undiscounted future cash flows, we then measure the asset's fair value to determine whether an impairment loss should be recognized. If the resulting fair value is less than the carrying value, an impairment loss is recognized for the difference between the carrying value and the estimated fair value. Impairment losses on property and equipment are recorded as a component of SG&A. When a leased location closes, we also recognize, in SG&A, the net present value of future lease obligations less estimated sublease income. Impairments and lease obligation costs on closings and relocations were not material to our consolidated financial statements in fiscal 2018, fiscal 2017, or fiscal 2016.

### **Leases**

We categorize leases at their inception as either operating or capital leases. Lease agreements include certain retail locations, office space, warehouse and distribution space, equipment, and vehicles. Most of these leases are operating leases. However, certain retail locations and equipment are leased under capital leases. Short-term and long-term obligations for capital leases are included in the applicable long-term debt category based on maturity. We expense rent related to operating leases on a straight-line basis over the lease term, which commences on the date we have the right to control the property. The cumulative expense recognized on a straight-line basis in excess of the cumulative payments is included in other accrued expenses and other long-term liabilities. Total rent expense for fiscal 2018, fiscal 2017, and fiscal 2016 is net of an immaterial amount of sublease income.

### **Goodwill**

Goodwill represents the excess of purchase price over the fair value of net assets acquired. We do not amortize goodwill, but assess the recoverability of goodwill in the third quarter of each fiscal year, or more often if indicators warrant, by determining whether the fair value of each reporting unit supports its carrying value. Each fiscal year, we may assess qualitative factors to determine whether it is more likely than not that the fair value of each reporting unit is less than its carrying amount as a basis for determining whether it is necessary to complete quantitative impairment assessments, with a quantitative assessment completed at least once every three years. We completed our last quantitative assessment in fiscal 2016.

In fiscal 2018, we completed our annual assessment of the recoverability of goodwill for the U.S., Canada, and Mexico reporting units. We performed qualitative assessments, concluding that the fair value of the reporting units substantially exceeded the respective reporting unit's carrying value, including goodwill. As a result, there were no impairment charges related to goodwill for fiscal 2018, fiscal 2017, or fiscal 2016.



Changes in the carrying amount of our goodwill follow.

<i>in millions</i>	Fiscal 2018	Fiscal 2017	Fiscal 2016
Goodwill, balance at beginning of year	\$ 2,275	\$ 2,093	\$ 2,102
Acquisitions <sup>(1)</sup>	4	164	—
Disposition	(15)	—	—
Other <sup>(2)</sup>	(12)	18	(9)
Goodwill, balance at end of year	<u>\$ 2,252</u>	<u>\$ 2,275</u>	<u>\$ 2,093</u>

(1) Includes purchase price allocation adjustments.

(2) Primarily reflects the impact of foreign currency translation.

### Other Intangible Assets

We amortize the cost of other finite-lived intangible assets over their estimated useful lives, which range up to 12 years. Intangible assets with indefinite lives are tested in the third quarter of each fiscal year for impairment, or more often if indicators warrant. Intangible assets other than goodwill are included in other assets.

In January 2019, we recognized a pretax impairment loss of \$247 million for certain trade names as a result of a shift in strategy for our MRO business. Our remaining finite-lived and indefinite-lived intangibles were not material at February 3, 2019.

### Debt

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

### Derivatives

We use derivative financial instruments in the management of our interest rate exposure on long-term debt and our exposure to foreign currency fluctuations. For derivatives that are designated as hedges, changes in their fair values that are considered effective are either accounted for in earnings or recognized in other comprehensive income or loss until the hedged item is recognized in earnings, depending on the nature of the hedge. Any ineffective portion of a derivative's change in fair value is immediately recognized in earnings. Financial instruments that do not qualify for hedge accounting are recorded at fair value with unrealized gains or losses reported in earnings. All qualifying derivative financial instruments are recognized at their fair values in either assets or liabilities at the balance sheet date and are reported on a gross basis. The fair values of our derivative financial instruments are discussed in [Note 4](#) and [Note 7](#).

### Insurance

We are self-insured for certain losses related to general liability (including product liability), workers' compensation, employee group medical, and automobile claims. We recognize the expected ultimate cost for claims incurred (undiscounted) at the balance sheet date as a liability. The expected ultimate cost for claims incurred is estimated based upon analysis of historical data and actuarial estimates. We also maintain network security and privacy liability insurance coverage to limit our exposure to losses such as those that may be caused by a significant compromise or breach of our data security. Insurance-related expenses are included in SG&A.

### Treasury Stock

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

### Net Sales

On January 29, 2018, we adopted ASU No. 2014-09 using the modified retrospective transition method which requires that we recognize revenue differently pre- and post-adoption. See "—Recently Adopted Accounting Pronouncements—ASU No. 2014-09" below for more information.

**Fiscal 2018 and Subsequent Periods.** We recognize revenue, net of expected returns and sales tax, at the time the customer takes possession of merchandise or when a service is performed. The liability for sales returns, including the impact to gross profit, is estimated based on historical return levels and recognized at the transaction price. We also recognize a return asset, and corresponding adjustment to cost of sales, for our right to recover the goods returned by the customer, measured at the former carrying amount of the goods, less any expected recovery cost. At each financial reporting date, we assess our estimates of expected returns, refund liabilities, and return assets.

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

For product sold in stores or online, payment is typically due at the point of sale. For services, payment in full is due upon completion of the job. When we receive payment from customers before the customer has taken possession of the merchandise or the service has been performed, the amount received is recorded as deferred revenue until the sale or service is complete. Such performance obligations are part of contracts with expected original durations of three months or less. We further record deferred revenue for the sale of gift cards and recognize the associated revenue upon the redemption of those gift cards in net sales. Gift card breakage income, which is our estimate of the non-redeemed gift card balance, was immaterial in fiscal 2018.

We also have agreements with third-party service providers who directly extend credit to customers and manage our PLCC program. Deferred interest charges incurred for our deferred financing programs offered to these customers, interchange fees charged to us for their use of the cards, and any profit sharing with the third-party service providers are included in net sales.

**Fiscal 2017 and Fiscal 2016.** We recognize revenue, net of estimated returns and sales tax, at the time the customer takes possession of merchandise or when a service is performed. The liability for sales returns, including the impact to gross profit, is estimated based on historical return levels.

Net sales include services revenue generated through a variety of installation, home maintenance, and professional service programs. In these programs, the customer selects and purchases material for a project, and we provide or arrange professional installation. These programs are offered through our stores and in-home sales programs. Under certain programs, when we provide or arrange the installation of a project and the subcontractor provides material as part of the installation, both the material and labor are included in services revenue. We recognize this revenue when the service for the customer is complete.

When we receive payment from customers before the customer has taken possession of the merchandise or the service has been performed, the amount received is recorded as deferred revenue until the sale or service is complete. We also record deferred revenue for the sale of gift cards and recognize this revenue upon the redemption of gift cards in net sales. Gift card breakage income, which is our estimate of the non-redeemed gift card balance, was immaterial in fiscal 2017 and fiscal 2016.

### **Cost of Sales**

Cost of sales includes the actual cost of merchandise sold and services performed; the cost of transportation of merchandise from vendors to our distribution network, stores, or customers; shipping and handling costs from our stores or distribution network to customers; and the operating cost and depreciation of our sourcing and distribution network and online fulfillment centers. In fiscal 2017 and fiscal 2016, cost of sales also included cost of deferred interest programs offered through our PLCC programs.

### **Cost of Credit**

We have agreements with third-party service providers who directly extend credit to customers, manage our PLCC program, and own the related receivables. We have evaluated the third-party entities holding the receivables under the program and concluded that they should not be consolidated. The agreement with the primary third-party service provider for our PLCC program expires in 2028, with us having the option, but no obligation, to purchase the receivables at the end of the agreement. The deferred interest charges we incur for our deferred financing programs offered to our customers are included in net sales in fiscal 2018 and subsequent periods and in cost of sales in fiscal 2017 and fiscal 2016. The interchange fees charged to us for our customers' use of the cards and any profit

sharing with the third-party service providers are included in net sales in fiscal 2018 and subsequent periods and in SG&A in fiscal 2017 and fiscal 2016. The sum of the deferred interest charges, interchange fees, and any profit sharing is referred to as the cost of credit of the PLCC program.

### Vendor Allowances

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

Certain other co-op advertising allowances that are reimbursements of specific, incremental, and identifiable costs incurred to promote vendors' products are recorded as an offset against advertising expense in SG&A. The co-op advertising allowances recorded as an offset to advertising expense follow.

<i>in millions</i>	Fiscal 2018	Fiscal 2017	Fiscal 2016
Specific, incremental, and identifiable co-op advertising allowances	\$ 235	\$ 198	\$ 166

### Advertising Expense

Television and radio advertising production costs, along with media placement costs, are expensed when the advertisement first appears. Certain co-op advertising allowances are recorded as an offset against advertising expense. Gross advertising expense included in SG&A follows.

<i>in millions</i>	Fiscal 2018	Fiscal 2017	Fiscal 2016
Gross advertising expense	\$ 1,156	\$ 995	\$ 955

### Stock-Based Compensation

We are currently authorized to issue incentive and nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, and deferred shares to certain of our associates, officers, and directors under certain stock incentive plans. We measure and recognize compensation expense for all share-based payment awards made to associates and directors based on estimated fair values. The value of the portion of the award that is ultimately expected to vest is recognized as stock-based compensation expense over the requisite service period or as restrictions lapse. Additional information on our stock-based payment awards is included in [Note 8](#).

### Income Taxes

Income taxes are accounted for under the asset and liability method. We provide for federal, state, and foreign income taxes currently payable, as well as for those deferred due to timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates is recognized as income or expense in the period that includes the enactment date.

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

We file a consolidated U.S. federal income tax return which includes certain eligible subsidiaries. Non-U.S. subsidiaries and certain U.S. subsidiaries, which are consolidated for financial reporting purposes, are not eligible to be included in our consolidated U.S. federal income tax return. Separate provisions for income taxes have been determined for these entities. For unremitted earnings of our non-U.S. subsidiaries, we are required to make an assertion regarding reinvestment or repatriation for tax purposes. For any earnings that we do not make a

permanent reinvestment assertion, we recognize a provision for deferred income taxes. For earnings where we have made a permanent reinvestment assertion, no provision is recognized. See [Note 5](#) for further discussion.

### **Comprehensive Income**

Comprehensive income includes net earnings adjusted for certain gains and losses that are excluded from net earnings under GAAP, which consists primarily of foreign currency translation adjustments.

### **Foreign Currency Translation**

Assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange on the last day of the reporting period. Revenues and expenses are translated using average exchange rates for the period and equity transactions are translated using the actual rate on the day of the transaction.

### **Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period's financial statement presentation. See "Recently Adopted Accounting Pronouncements" below for a discussion of our adoption of new accounting standards.

### **Recently Adopted Accounting Pronouncements**

**ASU No. 2016-16.** In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," which requires an entity to recognize the income tax consequences of an intercompany transfer of assets other than inventory when the transfer occurs. An entity will continue to recognize the income tax consequences of an intercompany transfer of inventory when the inventory is sold to a third party.

On January 29, 2018, we adopted ASU No. 2016-16 using the modified retrospective transition method with no impact on our consolidated financial statements. We expect the impact of the adoption to be immaterial to our financial position, results of operations, and cash flows on an ongoing basis.

**ASU No. 2014-09.** In May 2014, the FASB issued a new standard related to revenue recognition. Under ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. On January 29, 2018, we adopted ASU No. 2014-09 using the modified retrospective transition method.

In preparation for implementation of the standard, we finalized key accounting assessments and then implemented internal controls and updated processes to appropriately recognize and present the associated financial information. Based on these efforts, we determined that the adoption of ASU No. 2014-09 changes the presentation of (i) certain expenses and cost reimbursements associated with our PLCC program (now recognized in net sales), (ii) certain expenses related to the sale of gift cards to customers (now recognized in operating expense), and (iii) gift card breakage income (now recognized in net sales). We also have changed our recognition of gift card breakage income to be recognized proportionately as redemption occurs, rather than based on historical redemption patterns.

In addition, the adoption of ASU No. 2014-09 requires that we recognize our sales return allowance on a gross basis rather than as a net liability. As such, we now recognize (i) a return asset for the right to recover the goods returned by the customer, measured at the former carrying amount of the goods, less any expected recovery costs (recorded as an increase to other current assets) and (ii) a return liability for the amount of expected returns (recorded as an increase to other accrued expenses and a decrease to receivables, net).

We applied ASU No. 2014-09 only to contracts that were not completed prior to fiscal 2018. The cumulative effect of initially applying ASU No. 2014-09 was a \$99 million reduction to deferred revenue, a \$24 million increase to deferred income taxes (included in other long-term liabilities), and a \$75 million increase to the opening balance of retained earnings as of January 29, 2018. The comparative prior period information continues to be reported under the accounting standards in effect during those periods. We expect the impact of the adoption to be immaterial to our financial position, results of operations, and cash flows on an ongoing basis.

Excluding the effect of the opening balance sheet adjustment noted above, the impact of the adoption of ASU No. 2014-09 on our consolidated balance sheet as of February 3, 2019 follows.

<i>in millions</i>	As Reported	ASU No. 2014-09 Impact	Excluding ASU No. 2014-09 Impact
Receivables, net	\$ 1,936	\$ (40)	\$ 1,976
Other current assets	890	256	634
Other accrued expenses	2,611	216	2,395

The impact of the adoption of ASU No. 2014-09 on our consolidated statements of earnings for fiscal 2018 follows.

<i>in millions</i>	As Reported	ASU No. 2014-09 Impact	Excluding ASU No. 2014-09 Impact
Net sales	\$ 108,203	\$ 216	\$ 107,987
Cost of sales	71,043	(382)	71,425
Gross profit	37,160	598	36,562
Selling, general and administrative	19,513	598	18,915

### Recently Issued Accounting Pronouncements

**ASU No. 2018-15.** In August 2018, the FASB issued ASU No. 2018-15, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract," which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU No. 2018-15 is effective for us in the first quarter of fiscal 2020 and early adoption is permitted. We are evaluating the effect that ASU No. 2018-15 will have on our consolidated financial statements and related disclosures.

**ASU No. 2018-02.** In February 2018, the FASB issued ASU No. 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which allows for an optional reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects as a result of the Tax Act. ASU No. 2018-02 is effective for us in the first quarter of fiscal 2019 and early adoption is permitted. Two transition methods are available: at the beginning of the period of adoption, or retrospective to each period in which the income tax effects of the Tax Act related to items remaining in accumulated other comprehensive income are recognized. We will adopt this standard in the first quarter of 2019, applying the adjustment at the beginning of the period of adoption. We have evaluated the effect that ASU No. 2018-02 will have on our consolidated financial statements and related disclosures and noted no material impact.

**ASU No. 2017-12.** In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," which amends the hedge accounting recognition and presentation requirements. ASU No. 2017-12 eliminates the concept of recognizing periodic hedge ineffectiveness for cash flow and net investment hedges and allows an entity to apply the shortcut method to partial-term fair value hedges of interest rate risk. ASU No. 2017-12 is effective for us in the first quarter of fiscal 2019. Early adoption is permitted in any interim period after issuance of this update. We have evaluated the effect that ASU No. 2017-12 will have on our consolidated financial statements and related disclosures and noted no material impact.

**ASU No. 2017-04.** In January 2017, the FASB issued ASU No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which simplifies how an entity is required to test goodwill for impairment. The amendments in ASU No. 2017-04 require goodwill impairment to be measured using the difference between the carrying amount and the fair value of the reporting unit and require the loss recognized to not exceed the total amount of goodwill allocated to that reporting unit. ASU No. 2017-04 should be applied on a prospective basis and is effective for our annual goodwill impairment tests beginning in the first quarter of fiscal 2020. Early adoption is permitted. We have evaluated the effect that ASU No. 2017-04 will have on our consolidated financial statements and related disclosures and noted no material impact.

**ASU No. 2016-02.** In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which establishes a right-of-use model and requires an entity that is a lessee to recognize the right-of-use assets and liabilities arising from leases on its balance sheet. ASU No. 2016-02 also requires disclosures about the amount, timing, and

The approximate future minimum lease payments under capital and operating leases at February 3, 2019 follow.

<i>in millions</i>	Operating Leases	Capital Leases
Fiscal 2019	\$ 976	\$ 150
Fiscal 2020	912	167
Fiscal 2021	792	143
Fiscal 2022	682	142
Fiscal 2023	584	137
Thereafter	3,090	970
	<u>\$ 7,036</u>	<u>1,709</u>
Less imputed interest		660
Net present value of capital lease obligations		1,049
Less current installments		57
Long-term capital lease obligations, excluding current installments		<u>\$ 992</u>

#### 4. DEBT AND DERIVATIVE INSTRUMENTS

##### Short-Term Debt

We have commercial paper programs with an aggregate borrowing capacity of \$3.0 billion. All of our short-term borrowings in fiscal 2018 and fiscal 2017 were under these commercial paper programs. In connection with these programs, we have back-up credit facilities with a consortium of banks for borrowings up to \$3.0 billion, which consist of a 364-day \$1.0 billion credit facility and a five-year \$2.0 billion credit facility. In December 2018, we completed the renewal of our 364-day \$1.0 billion credit facility, extending the maturity from December 2018 to December 2019. In December 2017, we replaced our five-year \$2.0 billion credit facility that was scheduled to expire in December 2019, with a new, substantially identical five-year \$2.0 billion credit facility that expires in December 2022.

Certain information on our commercial paper programs follows.

<i>dollars in millions</i>	February 3, 2019	January 28, 2018
Weighted average interest rate	2.41%	1.45%
Balance outstanding at fiscal year-end	\$ 1,339	\$ 1,559
Maximum amount outstanding at any month-end	\$ 2,264	\$ 1,559
Average daily short-term borrowings	\$ 621	\$ 173

## Long-Term Debt

Details of the components of our long-term debt follow.

<i>in millions</i>	Interest Payable	Principal Amount	Carrying Amount	
			February 3, 2019	January 28, 2018
2.25% Senior notes due September 2018	Semi-annually	\$ —	\$ —	\$ 1,150
2.00% Senior notes due June 2019	Semi-annually	1,000	999	998
Floating rate senior notes due June 2020	Quarterly	500	499	499
1.80% Senior notes due June 2020	Semi-annually	750	749	748
3.95% Senior notes due September 2020	Semi-annually	500	499	501
4.40% Senior notes due April 2021	Semi-annually	1,000	999	998
2.00% Senior notes due April 2021	Semi-annually	1,350	1,345	1,343
Floating rate senior notes due March 2022	Quarterly	300	299	—
3.25% Senior notes due March 2022	Semi-annually	700	696	—
2.625% Senior notes due June 2022	Semi-annually	1,250	1,245	1,243
2.70% Senior notes due April 2023	Semi-annually	1,000	997	996
3.75% Senior notes due February 2024	Semi-annually	1,100	1,094	1,093
3.35% Senior notes due September 2025	Semi-annually	1,000	995	995
3.00% Senior notes due April 2026	Semi-annually	1,300	1,288	1,287
2.125% Senior notes due September 2026	Semi-annually	1,000	987	986
2.80% Senior notes due September 2027	Semi-annually	1,000	981	980
3.90% Senior notes due December 2028	Semi-annually	1,000	1,005	—
5.875% Senior notes due December 2036	Semi-annually	3,000	2,951	2,949
5.40% Senior notes due September 2040	Semi-annually	500	495	495
5.95% Senior notes due April 2041	Semi-annually	1,000	989	988
4.20% Senior notes due April 2043	Semi-annually	1,000	989	988
4.875% Senior notes due February 2044	Semi-annually	1,000	979	978
4.40% Senior notes due March 2045	Semi-annually	1,000	977	977
4.25% Senior notes due April 2046	Semi-annually	1,600	1,585	1,584
3.90% Senior notes due June 2047	Semi-annually	750	738	738
4.50% Senior notes due December 2048	Semi-annually	1,500	1,462	—
3.50% Senior notes due September 2056	Semi-annually	1,000	972	971
Total senior notes		<u>\$ 27,100</u>	<u>26,814</u>	<u>24,485</u>
Capital lease obligations; payable in varying installments through January 31, 2055			1,049	984
Total long-term debt			27,863	25,469
Less current installments of long-term debt			1,056	1,202
Long-term debt, excluding current installments			<u>\$ 26,807</u>	<u>\$ 24,267</u>

**December 2018 Issuance.** In December 2018, we issued four tranches of senior notes.

- The first tranche consisted of \$300 million of floating rate senior notes due March 1, 2022 (the "2022 floating rate notes"). The 2022 floating rate notes bear interest at a variable rate determined quarterly equal to the three-month LIBOR plus 31 basis points. Interest on the 2022 floating rate notes is due quarterly on March 1, June 1, September 1, and December 1 of each year, beginning March 1, 2019.
- The second tranche consisted of \$700 million of 3.25% senior notes due March 1, 2022 (the "2022 notes") at a discount of \$2 million. Interest on the 2022 notes is due semi-annually on March 1 and September 1 of each year, beginning March 1, 2019.

- The third tranche consisted of \$1.0 billion of 3.90% senior notes due December 6, 2028 (the "2028 notes") at a discount of \$7 million. Interest on the 2028 notes is due semi-annually on June 6 and December 6 of each year, beginning June 6, 2019.
- The fourth tranche consisted of \$1.5 billion of 4.50% senior notes due December 6, 2048 (the "2048 notes") at a discount of \$25 million (together with the 2022 floating rate notes, the 2022 notes and the 2028 notes, the "December 2018 issuance"). Interest on the 2048 notes is due semi-annually on June 6 and December 6 of each year, beginning June 6, 2019.
- Issuance costs totaled \$22 million. The net proceeds of the December 2018 issuance will be used for general corporate purposes, including repurchases of common stock.

**September 2017 Issuance.** In September 2017, we issued a single tranche of senior notes.

- The tranche consisted of \$1.0 billion of 2.80% senior notes due September 14, 2027 (the "2027 notes" and the "September 2017 issuance") at a discount of \$3 million. Interest on the 2027 notes is due semi-annually on March 14 and September 14 of each year, beginning March 14, 2018.
- Issuance costs totaled \$6 million. The net proceeds of the September 2017 issuance were used to repay our floating rate notes due September 15, 2017, and for general corporate purposes, including repurchases of our common stock.

**June 2017 Issuance.** In June 2017, we issued three tranches of senior notes.

- The first tranche consisted of \$500 million of floating rate senior notes due June 5, 2020 (the "2020 floating rate notes"). The 2020 floating rate notes bear interest at a variable rate determined quarterly equal to the three-month LIBOR plus 15 basis points. Interest on the 2020 floating rate notes is due quarterly on March 5, June 5, September 5, and December 5 of each year, beginning September 5, 2017.
- The second tranche consisted of \$750 million of 1.80% senior notes due June 5, 2020 (the "2020 notes") at a discount of \$1 million. Interest on the 2020 notes is due semi-annually on June 5 and December 5 of each year, beginning December 5, 2017.
- The third tranche consisted of \$750 million of 3.90% senior notes due June 15, 2047 (the "2047 notes") at a discount of \$5 million (together with the 2020 floating rate notes and the 2020 notes, the "June 2017 issuance"). Interest on the 2047 notes is due semi-annually on June 15 and December 15 of each year, beginning December 15, 2017.
- Issuance costs totaled \$12 million. The net proceeds of the June 2017 issuance were used for general corporate purposes, including repurchases of our common stock.

**Redemption.** All of our senior notes, other than our outstanding floating rate notes, may be redeemed by us at any time, in whole or in part, at the redemption price plus accrued interest up to the redemption date. With respect to the 2020 notes and the 2022 notes, the redemption price is equal to the greater of (1) 100% of the principal amount of the notes to be redeemed, or (2) the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed that would be due after the related redemption date. With respect to all other notes, the redemption price is equal to the greater of (1) 100% of the principal amount of the notes to be redeemed, or (2) the sum of the present values of the remaining scheduled payments of principal and interest to the Par Call Date, as defined in the respective notes. Additionally, if a Change in Control Triggering Event occurs, as defined in the notes, holders of all notes have the right to require us to redeem those notes at 101% of the aggregate principal amount of the notes plus accrued interest up to the redemption date. We are generally not limited under the indentures governing the notes in our ability to incur additional indebtedness or required to maintain financial ratios or specified levels of net worth or liquidity. The indentures governing the notes contain various customary covenants; however, none are expected to impact our liquidity or capital resources.

**Maturities of Long-Term Debt.** Our long-term debt maturities, excluding capital leases, follow.

<i>in millions</i>	<b>Principal</b>
Fiscal 2019	\$ 1,000
Fiscal 2020	1,750
Fiscal 2021	2,350
Fiscal 2022	2,250
Fiscal 2023	1,000
Thereafter	18,750



## Derivative Instruments

We had outstanding cross currency swap agreements with a combined notional amount of \$326 million at February 3, 2019 and \$626 million at January 28, 2018, accounted for as cash flow hedges, to hedge foreign currency fluctuations on certain intercompany debt. The approximate fair values of these agreements were assets of \$121 million at February 3, 2019 and \$233 million at January 28, 2018, which were the estimated amounts we would have received to settle the agreements and were included in other assets.

We had outstanding interest rate swap agreements with combined notional amounts of \$1.3 billion at both February 3, 2019 and January 28, 2018. These agreements were accounted for as fair value hedges that swap fixed for variable rate interest to hedge changes in the fair values of certain senior notes. The fair values of these agreements were not material at February 3, 2019 and January 28, 2018.

We had outstanding foreign currency forward contracts with a combined notional amount of \$16 million at February 3, 2019. These agreements were accounted for as cash flow hedges that hedge the variability of forecasted cash flow associated with certain payments made in our foreign operations. At January 28, 2018, we had outstanding foreign currency forward contracts with a combined notional amount of \$300 million. These agreements were accounted for as net investment hedges that hedge against foreign currency exposure on our net investment in certain subsidiaries and were all settled during fiscal 2018. At February 3, 2019 and January 28, 2018, the fair values of these agreements were not material.

## 5. INCOME TAXES

### Tax Reform

On December 22, 2017, the U.S. enacted comprehensive tax legislation with the Tax Act, making broad and complex changes to U.S. tax law, including lowering the U.S. corporate income tax rate to 21%, transitioning to a modified territorial system, and providing for current expensing of certain qualifying capital expenditures. Also in December 2017, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. As disclosed in our 2017 Form 10-K, we were able to reasonably estimate certain effects and, therefore, recorded a total provisional charge of \$127 million. The provisional charge included (i) a charge for the deemed repatriation of historical earnings of foreign subsidiaries, (ii) a provisional benefit for the remeasurement of deferred tax assets and liabilities, and (iii) an estimated benefit due to a lower U.S. statutory tax rate. As of February 3, 2019, we have completed our accounting for all of the enactment-date income tax effects of the Tax Act. During fiscal 2018, we adjusted the provisional charge by a net benefit of \$85 million, for a final tax charge of \$42 million. These adjustments were made upon our further analysis of certain aspects of the Tax Act, refinement of our calculations, and the issuance of guidance by the U.S. Department of the Treasury. The components of the provisional charge recognized in fiscal 2017 and the adjustments made during fiscal 2018 follow.

<i>in millions</i>	Deemed Repatriation	Deferred Tax Remeasure- ment	Statutory Tax Rate Impact	Total
Provisional tax charge (benefit) - recognized in fiscal 2017	\$ 400	\$ (147)	\$ (126)	\$ 127
Tax charge (benefit) adjustment - finalized in fiscal 2018	(62)	(22)	(1)	(85)
Total tax charge (benefit)	<u>\$ 338</u>	<u>\$ (169)</u>	<u>\$ (127)</u>	<u>\$ 42</u>

We have elected to pay our transition tax over the eight-year period provided in the Tax Act. As of February 3, 2019, the remaining balance of our transition tax obligation was \$14 million, after required application of overpayments.

The Tax Act also created a new requirement that certain income (referred to as global intangible low-taxed income or "GILTI") earned by controlled foreign corporations, or CFCs, must be included currently in the gross income of the CFCs' U.S. shareholder. Due to the complexity of the new GILTI tax rules, we recorded no GILTI related deferred taxes as of January 28, 2018. After further considerations in fiscal 2018, we have elected to account for GILTI in the period the tax is incurred.

We expect additional regulatory guidance and technical clarifications from the U.S. Department of the Treasury and IRS within the next 12 months. Any subsequent adjustment to these amounts will be recorded to the provision for income taxes in the period in which the guidance is issued or finalized.

## Provision for Income Taxes

Our earnings before the provision for income taxes follow.

<i>in millions</i>	Fiscal 2018	Fiscal 2017	Fiscal 2016
U.S.	\$ 13,456	\$ 12,682	\$ 11,568
Foreign	1,100	1,016	923
Total	<u>\$ 14,556</u>	<u>\$ 13,698</u>	<u>\$ 12,491</u>

Our provision for income taxes follows.

<i>in millions</i>	Fiscal 2018	Fiscal 2017	Fiscal 2016
<b>Current:</b>			
Federal	\$ 2,495	\$ 4,128	\$ 3,870
State	544	499	462
Foreign	372	331	315
Total current	<u>3,411</u>	<u>4,958</u>	<u>4,647</u>
<b>Deferred:</b>			
Federal	67	(67)	(102)
State	1	89	13
Foreign	(44)	88	(24)
Total deferred	<u>24</u>	<u>110</u>	<u>(113)</u>
Provision for income taxes	<u>\$ 3,435</u>	<u>\$ 5,068</u>	<u>\$ 4,534</u>

Our combined federal, state, and foreign effective tax rates follow.

	Fiscal 2018	Fiscal 2017	Fiscal 2016
Combined federal, state, and foreign effective tax rates	23.6%	37.0%	36.3%

The reconciliation of our provision for income taxes at the federal statutory rates of 21% for fiscal 2018, approximately 34% for fiscal 2017, and 35% for fiscal 2016 to the actual tax expense follows.

<i>in millions</i>	Fiscal 2018	Fiscal 2017	Fiscal 2016
Income taxes at federal statutory rate	\$ 3,057	\$ 4,648	\$ 4,372
State income taxes, net of federal income tax benefit	443	369	309
Tax on mandatory deemed repatriation	(62)	400	—
Other, net	(3)	(349)	(147)
Total	<u>\$ 3,435</u>	<u>\$ 5,068</u>	<u>\$ 4,534</u>

## Deferred Taxes

The tax effects of temporary differences that give rise to significant portions of our deferred tax assets and deferred tax liabilities follow.

<i>in millions</i>	February 3, 2019	January 28, 2018
<b>Assets:</b>		
Deferred compensation	\$ 183	\$ 185
Accrued self-insurance liabilities	298	295
State income taxes	96	109
Non-deductible reserves	231	220
Net operating losses	17	19
Other	116	124
Total deferred tax assets	941	952
Valuation allowance	—	—
Total deferred tax assets after valuation allowance	941	952
<b>Liabilities:</b>		
Merchandise inventories	(9)	(9)
Property and equipment	(893)	(770)
Goodwill and other intangibles	(179)	(243)
Other	(230)	(251)
Total deferred tax liabilities	(1,311)	(1,273)
Net deferred tax liabilities	\$ (370)	\$ (321)

Our noncurrent deferred tax assets and noncurrent deferred tax liabilities, netted by tax jurisdiction, follow.

<i>in millions</i>	February 3, 2019	January 28, 2018
Other assets	\$ 121	\$ 119
Deferred income taxes	(491)	(440)
Net deferred tax liabilities	\$ (370)	\$ (321)

We believe that the realization of the deferred tax assets is more likely than not, based upon the expectation that we will generate the necessary taxable income in future periods.

At February 3, 2019, we had federal, state, and foreign net operating loss carryforwards available to reduce future taxable income, expiring at various dates beginning in 2019 to 2038. We have concluded that it is more likely than not that the tax benefits related to the federal, state, and foreign net operating losses will be realized.

### Reinvestment of Unremitted Earnings

Substantially all of our current year foreign cash flows in excess of working capital and cash needed for strategic investments are not intended to be indefinitely reinvested offshore. Therefore, the tax effects of repatriation (including applicable state and local taxes and foreign withholding taxes) of such cash flows have been provided for in the accompanying consolidated statements of earnings. We intend to reinvest substantially all of the approximately \$3 billion of non-cash unremitted earnings of our non-U.S. subsidiaries indefinitely. Accordingly, no provision for state and local taxes or foreign withholding taxes was recorded on these unremitted earnings in the accompanying consolidated statements of earnings. It is impracticable for us to determine the amount of unrecognized deferred tax liabilities on these indefinitely reinvested earnings due to the complexities associated with the hypothetical calculation.

### Tax Return Examination Status

Our income tax returns are routinely examined by U.S. federal, state and local, and foreign tax authorities. With few exceptions, as of February 3, 2019, the Company is no longer subject to U.S. federal examinations by tax

authorities for years before fiscal 2010. During fiscal 2018, the Company settled a transfer pricing issue between the U.S. and Mexican tax authorities. The resolution of this issue reduced our unrecognized tax benefits by \$89 million. The net impact of the settlement resulted in an immaterial tax charge in fiscal 2018. Our U.S. federal tax returns for fiscal years 2010 through 2014 are currently under examination by the IRS. With respect to these years, the IRS has issued a proposed adjustment relating to transfer pricing between our entities in the U.S. and China. We intend to defend our position using all available remedies including bi-lateral relief. There are also ongoing U.S. state and local audits and other foreign audits covering fiscal years 2005 through 2017. We do not expect the results from any ongoing income tax audit to have a material impact on our consolidated financial condition, results of operations, or cash flows.

Over the next twelve months, it is reasonably possible that the resolution of federal and state tax examinations could reduce our unrecognized tax benefits by \$65 million. Final settlement of these audit issues may result in payments that are more or less than this amount, but we do not anticipate the resolution of these matters will result in a material change to our consolidated financial condition or results of operations.

### Unrecognized Tax Benefits

Reconciliations of the beginning and ending amount of our gross unrecognized tax benefits follow.

<i>in millions</i>	Fiscal 2018	Fiscal 2017	Fiscal 2016
Unrecognized tax benefits balance at beginning of fiscal year	\$ 637	\$ 659	\$ 689
Additions based on tax positions related to the current year	91	74	147
Additions for tax positions of prior years	100	15	14
Reductions for tax positions of prior years	(245)	(93)	(161)
Reductions due to settlements	(66)	(1)	(16)
Reductions due to lapse of statute of limitations	(23)	(17)	(14)
Unrecognized tax benefits balance at end of fiscal year	<u>\$ 494</u>	<u>\$ 637</u>	<u>\$ 659</u>

Unrecognized tax benefits that if recognized would affect our annual effective income tax rate on net earnings were \$398 million at February 3, 2019; \$483 million at January 28, 2018; and \$382 million at January 29, 2017.

### Interest and Penalties

Net adjustments to accruals for interest and penalties associated with uncertain tax positions resulted in a benefit of \$33 million in fiscal 2018, and expenses of \$24 million in fiscal 2017 and \$20 million in fiscal 2016. Interest and penalties are included in interest expense and SG&A, respectively.

Our total accrued interest and penalties follow.

<i>in millions</i>	February 3, 2019	January 28, 2018
Total accrued interest and penalties	\$ 101	\$ 134