Fiscal Q1 2018
Revenue Recognition Adoption

May 15, 2018

Forward-looking Statements

Certain statements contained herein 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 Cuts and Jobs Act of 2017; store openings and closures; guidance for fiscal 2018 and beyond; financial outlook; and the integration of acquired companies into our organization and the ability to recognize the anticipated synergies and benefits of those acquisitions. These forward-looking statements are based on currently available information and current assumptions, expectations and projections about future events, and actual results could differ materially from our expectations and projections. You should not rely on our forward-looking statements as they speak only as of the date hereof, and we undertake no obligation to update these statements to reflect subsequent events or circumstances except as may be required by law. Additional information regarding risks and uncertainties is described in Item 1A, "Risk Factors," and elsewhere in our Annual Report on Form 10-K for our fiscal year ended January 28, 2018 and our subsequent Quarterly Reports on Form 10-Q.

Overview

- During the first quarter of fiscal 2018, the Company adopted ASU No. 2014-09, which pertains to revenue recognition. The adoption of this standard will not materially impact our consolidated financial statements or related disclosures.
- Under ASU No. 2014-09, we have changed the presentation of certain expenses and cost reimbursements associated with our private label credit card program, certain expenses related to the sale of our gift cards to customers, and gift card breakage income. We have also changed our recognition of gift card breakage income to be recognized proportionately as redemption occurs, rather than based on historical redemption patterns.
- We have adopted this standard on a modified retrospective basis. In accordance therewith, we will not recast financial information prior to fiscal 2018.
- The consolidated statement of earnings and balance sheet for the first quarter of fiscal 2018 reflect the effect of this accounting policy adoption.
  - The impact of adoption was an increase of $33 million to net sales, a decrease of $98 million to cost of sales, and a corresponding increase of $131 million to operating expenses for the first quarter of fiscal 2018.
  - There is no impact from our adoption on operating income, net earnings or earnings per share.
  - The consolidated balance sheet reflects the cumulative impact of adoption using the modified retrospective method as well as the impact of recording the sales return allowance on a gross basis rather than as a net liability.
- The fiscal 2017 pro forma information included herein is presented for informational purposes only as the modified retrospective method does not permit recasting pre-adoption financial information.

Q1 2018 Income Statement – Impact of Adoption

We adopted ASU No. 2014-09, which pertains to revenue recognition, in the first quarter of fiscal 2018. The following table shows the impact of adopting ASU No. 2014-09 on our consolidated statement of earnings for the first quarter of fiscal 2018. The implementation of this accounting standard resulted in an increase in net sales, gross profit, and total operating expenses and a decrease in cost of sales. There was no impact on operating income, net earnings, or earnings per share.

	Q1 2018			
in millions	Q1 Actuals As Reported	ASC 606 Impact	Q1 Actuals Excluding Impact	Basis Point Impact
Net sales (1) (2) (3)	$ 24,947	$ 33	$ 24,914	
Cost of sales (1)	16,330	(98)	16,428	
Gross profit (1) (2) (3)	8,617	131	8,486	
Gross profit %	*34.54%*		*34.06%*	*-48*
Operating expenses	5,236	131	5,105	
Operating expenses % sales	*20.99%*		*20.49%*	*-50*
Operating income	3,381	-	3,381	
Operating income %	*13.55%*		*13.57%*	*2*
Interest & other, net	239	-	239	
Earnings before tax	3,142	-	3,142	
Income tax	738	-	738	
Effective tax rate	*23.5%*		*23.5%*	
Net earnings	$ 2,404	$ -	$ 2,404	

(1) ASC 606 impact reflects reclassification of expenses and cost of sales to net sales related to our private label credit card.

(2) ASC 606 impact reflects reclassification of sales commissions on the third-party sale of gift cards from net sales to expenses.

(3) ASC 606 impact reflects reclassification of gift card breakage income from expenses to net sales.

Q1 2018 Balance Sheet – Impact of Adoption

We adopted ASU No. 2014-09, which pertains to revenue recognition, in the first quarter of fiscal 2018. The following table shows the impact of adopting ASU No. 2014-09 on our consolidated balance sheet as of April 29, 2018.

	Q1 2018		
in millions	Q1 Actuals As Reported	ASC 606 Impact	Q1 Actuals Excluding Impact
Cash and cash equivalents	$ 3,599	$ -	$ 3,599
Receivables, net (1)	2,296	(46)	2,342
Merchandise inventories	14,432	-	14,432
Other current assets (1)	887	269	618
Total current assets	21,214	223	20,991
Net property and equipment	21,928	-	21,928
Goodwill	2,281	-	2,281
Other assets	1,227	-	1,227
Total assets	**$ 46,650**	**$ 223**	**$ 46,427**
Short-term debt	$ 350	$ -	$ 350
Accounts payable	9,726	-	9,726
Accrued salaries and related expenses	1,413	-	1,413
Current installments of long-term debt	1,199	-	1,199
Other current liabilities (1) (2)	5,445	124	5,321
Total current liabilities	18,133	124	18,009
Long-term debt, excluding current installments	24,244	-	24,244
Other liabilities (2)	2,586	24	2,562
Total liabilities	**44,963**	**148**	**44,815**
Total stockholders' equity (2)	**1,687**	**75**	**1,612**
Total liabilities and stockholders' equity	**$ 46,650**	**$ 223**	**$ 46,427**

(1) ASC 606 impact includes impact of recording sales returns asset and liability on a gross basis rather than as a net liability.

(2) ASC 606 impact reflects cumulative impact of adoption relating to gift card breakage using the modified retrospective transition approach.

Income Statement – Pro Forma Fiscal 2017

We adopted ASU No. 2014-09, which pertains to revenue recognition, in the first quarter of fiscal 2018 using the modified retrospective method. In accordance therewith, we will not recast financial information prior to fiscal 2018 as the modified retrospective method does not permit recasting pre-adoption financial information. The following table presents our results on a pro forma basis as if the recognition and presentation guidance in ASU No. 2014-09 had been applied in fiscal 2017. There was no impact on operating income, net earnings, or earnings per share. The following fiscal 2017 pro forma results are presented for informational purposes only.

	Pro Forma				
in millions	Q1 2017	Q2 2017	Q3 2017	Q4 2017	FY 2017
Net sales	$ 23,935	$ 28,141	$ 25,070	$ 23,924	$101,070
Cost of sales	15,643	18,533	16,293	15,705	66,174
Gross profit	8,292	9,608	8,777	8,219	34,896
Gross profit %	*34.64%*	*34.14%*	*35.01%*	*34.35%*	*34.53%*
Total operating expenses	4,943	5,145	5,097	5,030	20,215
Operating Expenses % Sales	*20.65%*	*18.28%*	*20.33%*	*21.02%*	*20.00%*
Operating income	3,349	4,463	3,680	3,189	14,681
Operating Income %	*13.99%*	*15.86%*	*14.68%*	*13.33%*	*14.53%*
Interest & other, net	241	249	247	246	983
Earnings before tax	3,108	4,214	3,433	2,943	13,698
Income tax	1,094	1,542	1,268	1,164	5,068
Effective tax rate	*35.2%*	*36.6%*	*36.9%*	*39.6%*	*37.0%*
Net earnings	$ 2,014	$ 2,672	$ 2,165	$ 1,779	$ 8,630