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## Home Depot (HD)

A review of Home Depot's (HD) 1/18 fourth quarter earnings turned up no significant items of concern. We do note that despite strong cash flow, the company has chosen to take on debt to buy back shares:

	Year ended:				
	1/31/2018	1/31/2017	1/31/2016	1/31/2015	1/31/2014
Operating Cash Flow	\$12,031	\$9,783	\$9,373	\$8,242	\$7,628
Capex	\$1,897	\$1,621	\$1,503	\$1,442	\$1,389
Free Cash Flow	\$10,134	\$8,162	\$7,870	\$6,800	\$6,239
Dividends	\$4,212	\$3,404	\$3,031	\$2,530	\$2,243
Net Stock Repurchases	\$7,745	\$6,662	\$6,772	\$6,748	\$8,305
Cash After Buyback	-\$1,823	-\$1,904	-\$1,933	-\$2,478	-\$4,309

While we could debate whether or not some of that extra cash would have better served shareholders by being spent on a larger dividend, the company's low leverage and excess cash flow does not make the large buyback a concern as it does for some companies. (See the 1/4/2018 *BTN Thursday Thoughts* for a more detailed discussion of share buybacks.)

What we found interesting in the conference call was management's forecast for \$4 billion in buybacks in 2018. This is roughly half the recent level of spending. Management forecast \$14.1 billion in cash flow (which includes about \$1.8 billion related to tax reform) and capital spending of \$2.5 billion, implying free cash flow of about \$11.6 billion. The dividend (which was increased by 16%) will take up about \$4.8 billion. Take out the \$4 billion minimum commitments for the buyback and that leaves almost \$3 billion unaccounted for. Consider management's comment on the call:

**“So, based on the cash flow guidance that we've given you and the use of cash, you're like, wow, you're going to have some leftover cash, and that's right, we are. And we are exploring what to do with that cash. And it could be additional share repurchases, dividends, pay back debt, build cash for the future, so on and so forth. We're going to take our time to think through this thoroughly and once we determine**

what we will do with the cash, we will let you know. The \$4 billion specifically is what we had on our Investor Day. So, we just kept that for the year and then we'll update you as the year continues.”

Too much cash is always a good problem to have.

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