



THE MARKET

Today, the home is more of a sanctuary than ever before. Reasonable interest rates, war, threats of terrorism, high energy costs, and a mixed stock market help explain why people are more inclined than ever to improve what is probably their largest single asset.

For 26 years, The Home Depot has led the way in providing innovative products, services, and expertise to general consumers and professional customers alike. The company is the world's largest home improvement retailer and one of the most recognized and respected brands in the global marketplace. The retailer employs approximately 325,000 associates and plans to open more than 2,000 stores by 2006 in 50 states, the District of Columbia, Puerto Rico, 10 Canadian provinces, and Mexico. Its reach will soon include China, where the company opened a business development office in 2004.

The Home Depot identifies a nearly \$1 trillion global market opportunity for products and services geared to the consumer and professional customer.



"We have challenged ourselves to become the supplier of goods and services for every aspect of improving the home," explains Bob Nardelli, The Home Depot's chairman, president, and CEO. "We want our customers, both the ordinary consumer and professional, to know they can come to us for help — for products, advice, or to actually do the work for them."

The Home Depot empowers its customers to achieve the home, condo, or apartment of their dreams. That belief is inherent in the company's tagline, "You can do it. We can help."



ACHIEVEMENTS

Recently, *Fortune* magazine ranked The Home Depot as the No. 1 Most Admired Specialty Retailer in its annual "America's Most Admired" list. The reason for that ranking is evident in the company's strategy to bring innovative products and services to consumers in a store format that fits their needs and their neighborhoods.

Over the last quarter century, The Home Depot has grown to become:

- The world's largest home improvement retailer
- The third-largest retailer in the world
- The second-largest retailer in America
- The largest home improvement retailer in Mexico
- The fastest-growing retailer in history; the first to reach \$40 billion, then \$50 billion, then \$60 billion, and now \$73 billion in sales
- The youngest retailer in the Fortune 50

The Home Depot is not content to stop at market share and financial successes. Giving back is a fundamental value of The Home Depot and a passion for its associates. Through an extensive community relations program, the company reaches out through philanthropic and volunteer support to the communities where its associates live and work. Programs bring together volunteerism, do-it-yourself expertise, product donations, and monetary grants to meet critical needs and build affordable communities.

The company's community relations efforts focus on mobilizing associate volunteers, donations, and supplies to build homes and playgrounds, prepare communities for emergencies, and assist in rebuilding efforts. Volunteerism is embraced collectively and individually throughout the company and by Bob Nardelli, The Home Depot's chairman, president, and CEO, who has become a champion for corporate volunteerism. At a recent speech to the U.S. Chamber of Commerce, Nardelli said, "Corporate volunteerism may be the

single most powerful untapped force for positive change in this country today." Nardelli then issued a call to action to other corporations to "join in and revitalize the promise that this nation was founded on . . . helping one another and giving back."

HISTORY

The do-it-yourself home improvement concept may not have been born 26 years ago, but few would dispute that it took flight with the opening of The Home Depot in Atlanta, Georgia, on June 22, 1979. The bright orange warehouse opened an entirely new

world to people wanting to do things for themselves, but without deep pockets or in-depth "how to" knowledge.

The vision of The Home Depot's founders, Bernie Marcus and Arthur M. Blank, was to give customers everyday low prices with experienced tradespeople offering straight advice on how to get projects off the ground. Consumers immediately warmed to the idea, and the concept quickly took off.

THE PRODUCT

The inventory in the company's stores consists of 40,000 to 50,000 different kinds of building materials, home improvement supplies, and lawn and garden products, as well as 250,000 products that can be specially ordered. In addition to basics, ranging from lumber to lightbulbs, The Home Depot offers a range of proprietary and exclusive brands in its stores, including Hampton Bay® fans and lighting; BEHR Premium Plus® paint; Ralph Lauren® paint; Thomasville® cabinetry; Pegasus faucets; Vigoro® lawn and garden products; Veranda™ composite decking, fencing, and railing; and Husky® and RIDGID® tools. The in-store appliance showroom also features General Electric®, Maytag®, and LG products.

These innovative and low-priced products are offered in stores that are increasingly tailored to meet the style and needs of local neighborhoods. While most suburban stores average 106,000 square feet, the company is branching out into new formats that suit big-city residents, a growing customer base. These urban format stores, currently located in Manhattan, Vancouver, and Chicago, offer products and services in a uniquely styled store with a merchandise mix focused on local needs. For example, shoppers at The Home Depot's 59th Street store in Manhattan will find a unique offering of high-end décor items and

expanded customer services, like custom closet design and the largest tool center in the borough. Additionally, the 59th Street store differentiates itself with a “virtual apartment” in the lobby, a 1,400-square-foot, three-dimensional space exhibiting project-based, real-life expressions in a mock one-bedroom apartment.

Other services and products available in the company’s retail stores include the following:

- A design center staffed by professional designers who offer free in-store consultations, including computer-assisted kitchen and bath design
- Tool and Equipment Rental Centers in more than 1,000 stores for those who want to try before they buy
- Load ‘N’ Go™ truck rental to bring merchandise home
- A Commercial Desk staffed with associates whose top priority is to help get the job done on time and on budget
- Installation Services®, featuring 23 national programs, including kitchen and bath, flooring, and roofing and siding, for customers who would rather have someone else do the work

In addition to its home and garden improvement stores, The Home Depot also operates EXPO® Design Center locations. EXPO is a one-stop interior design showroom offering full design and installation services as well as leading-edge products for the whole house. Each showroom provides consumers with access to an incredible selection of upscale designer products in lighting, soft and hard flooring, bath design and hardware, kitchen design and appliance, décor, and patio living.

RECENT DEVELOPMENTS

International Expansion. In 2004, The Home Depot became the largest home improvement retailer in Mexico and by 2005 will operate 138 stores in Canada. The company has opened a business development office in China and is exploring its options for retail expansion in that growing economy.

Large Professional Customers. The professional contractor has been an important customer of The Home Depot since its early days. Many local contractors begin each day at their local store, picking up the supplies they need for the job site. A dedicated Pro Desk is available in each store, designed and staffed to help contractors get what they need. However, as the housing market continues to grow, large-production home builders and commercial contracting firms are increasingly a target market, and they need specialized products and services that cannot be provided in the company’s retail stores alone.

Today, The Home Depot SupplySM works to meet the needs of this ever-growing market through its Builder Solutions, MRO, and White Cap Construction divisions:

- Builder Solutions is one of the premiere providers of turnkey flooring, window treatments, countertops, and design center services for new residential production builders in the United States. Builder Solutions annually provides services to builders for more than 50,000 homes across the country.
- The Home Depot Supply is a leading supplier of maintenance, repair, and operations (MRO) products to owners and managers of multifamily,

hospitality, educational, and commercial properties; health-care providers; and government installations. The company provides free, next-day delivery on 14,000 in-stock products from a network of over 20 warehouse locations across the United States and Canada.

- White Cap Construction is a leading distributor of specialty hardware, tools, and materials targeting large- and medium-sized construction contractors. With a focus on foundation-related work, our best-in-class service model allows customers with projects ranging from large-scale industrial and commercial to residential construction to purchase specialty and hard-to-find tools and fasteners from our open warehouse locations.

PROMOTION

“The Home Depot was founded 26 years ago with one of the most distinctive positioning platforms in retail, and we’re fortunate that it still remains that way today,” says John Costello, executive vice president for merchandising and marketing. He adds, “Our challenge is to extend that positioning through brand differentiation to further meet our customers’ ever-evolving needs.”

Through 360-degree marketing — “Everything that touches the consumer defines our brand,” says Costello — the company reaches customers in a variety of unique ways, such as sports sponsorships, branded integration, traditional advertising, digital marketing and cataloging.

Sports Sponsorships. Sports sponsorships like NASCAR (Official Home Improvement Warehouse and primary sponsor of The #20 Home Depot Chevrolet), the U.S. Olympic Team (leading employer of U.S. Olympic and Paralympic athletes), and College Football (*ESPN College GameDay* Built by The Home Depot) help link The Home Depot brand with weekend activities. In addition, the qualities that propel athletes to greatness — highly motivated, dedicated, achievement-oriented — fit perfectly into The Home Depot’s passionate, orange-blooded culture.

At the 2004 Summer Olympic Games in Athens, the company’s associates won 41 medals as a result of 71 athletes competing.

Marketing Alliances. Following the successful launch of a hiring partnership earlier in the year, The Home Depot expanded its relationship with AARP to include educational, merchandising, and marketing initiatives designed for AARP members and customers of The Home Depot. In addition to the special discounts, savings, and activities planned for AARP members, the strategic alliance is designed to provide products and information to mature Americans who wish to remain in their homes and “age in place.”

Branded Integration. The company also sponsors more than 30 home improvement television programs, including *Trading Spaces*, *While You Were Out*, and *Merge*, which empower customers to go from spectator to participant in tackling their home improvement projects.

“Over the last year, we have significantly increased our efforts in production and content integration,” said Roger Adams, senior vice president of marketing. “In addition to strong

branding, we were able to effectively communicate our empowerment theme, which is inherent in our message: ‘You Can Do It. We Can Help.’”

Digital Marketing. Homedepot.com is both an online store and a research tool for customers planning a home improvement project or a trip to



their local store, with step-by-step know-how instructions on a wide variety of subjects.

Customers today have more choice in the products and services they buy, more choices in how and where to purchase those products and services, and more choices in the media they consume. As a result, power has really shifted to the consumer. Therefore, The Home Depot believes that the key to success lies in understanding those needs better than anyone else and then delivering on those needs in its stores.

BRAND VALUES

Associates are central to The Home Depot’s success. Eight steadfast values are part of the fabric of the company:

- Taking care of The Home Depot’s people
- Giving back to communities
- Doing the right thing
- Excellent customer service
- Creating shareholder value
- Building strong relationships
- Entrepreneurial spirit
- Respect for all people

THINGS YOU DIDN’T KNOW ABOUT THE HOME DEPOT

- Nearly 25,000,000 customers visit The Home Depot every week.
- Half of all ceiling fans in the United States are purchased at The Home Depot; most are its Hampton Bay brand.
- The Home Depot sells enough paint in a year to paint the square footage of Manhattan Island with one good coat and still have enough left over to touch up the graffiti in the Bronx.
- The Home Depot sold enough carpet last year to pave a two-lane road from Atlanta to Los Angeles to New York City and back to Atlanta again.
- Customers will buy 53,000 tons of grills from The Home Depot this year.