The Home Depot, Inc.[1]

This is a real-time forecasting case. Your objective is to forecast The Home Depot's (NYSE: HD) income statement, balance sheet, and statement of cash flows for the current fiscal quarter. You will be evaluated on both the methodology underlying your forecasting model and the extent to which you accurately forecast The Home Depot's financial statements. You should place particular emphasis on trying to generate an accurate forecast of The Home Depot's EPS for the quarter.

   The Home Depot makes a good pedagogical real-time forecasting case for several reasons:
• It is a large and important company (component of both the S&P 500 and the DJIA).
• A wealth of information about the company is readily available on the Web.
• Its basic business operation/strategy is well known and easy to understand.
• Its rapid growth illustrates forecasting techniques specific to growth companies.
• The seasonal nature of its business illustrates forecasting techniques specific to companies with seasonals.
• It is followed by a large number of sell-side analysts, who each publishes its own forecasting models.
   We recommend that you use the following framework and links in constructing your forecasting model:
   1. Familiarize yourself with The Home Depot's business strategy and financial performance. You will find most of the information available from the Financial Info link on http://www.homedepot.com. Make sure that you study The Home Depot's recent Form 10-Ks and Form 10-Qs. You also may find it useful to compare The Home Depot's performance with industry benchmarks and major competitors. Try http://moneycentral.msn.com/investor/, enter HD for the ticker, and then go to Financial Results/Ratios. Also check out http:// www.lowes.com/.
   2. Familiarize yourself with The Home Depot's expansion plans. Company press releases and the MD&A sections of the Form 10-Ks and Form 10-Qs are your best sources of information. This information is again available from the Financial Info link on http://www.homedepot.com.
   3. Familiarize yourself with any information made available during the quarter that may have a bearing on The Home Depot's results. For example, did Home Depot's management issue any earnings forecasts or pre-announcements? Was consumer spending relatively high during the quarter? Have any competitors already reported quarter's results? What was the weather like around the United States and how might this impact The Home Depot's sales?
   4. Use the forecasting framework developed in the course, along with the insights generated by your analysis in steps one though four above, to prepare The Home Depot's pro forma financials for the current quarter. Your forecast should be based on more detailed analysis than simply repeating management's guidance.
   5. Do a "reality check" on your forecasting model by comparing your model to the models published by leading Wall Street sell-side analysts and by comparing your EPS forecasts to the consensus sell-side forecast. You can often obtain full-text sell-side analyst reports from research libraries.

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[1] This case was prepared by Richard Sloan as the basis for classroom discussion. Copyright © 2000 by Richard Sloan.