UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 29, 2018

- 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	Exact name of Registrant as specified in its charter, Address of principal executive offices and Telephone number	State of incorporation	I.R.S. Employer Identification Number
001-35979	**HD SUPPLY HOLDINGS, INC.** 3400 Cumberland Boulevard SE Atlanta, Georgia 30339 (770) 852-9000	Delaware	26-0486780
333-159809	**HD SUPPLY, INC.** 3400 Cumberland Boulevard SE Atlanta, Georgia 30339 (770) 852-9000	Delaware	75-2007383

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.

HD Supply Holdings, Inc. Yes ☒ No ☐
HD Supply, Inc. Yes ☐ No ☒

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

HD Supply Holdings, Inc. Yes ☒ No ☐
HD Supply, Inc. Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

HD Supply Holdings, Inc.
Large accelerated filer ☒ Accelerated filer ☐ Smaller reporting company ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)
Emerging growth company ☐
HD Supply, Inc.
Large accelerated filer ☐ Accelerated filer ☐ Smaller reporting company ☐
Non-accelerated filer ☒ (Do not check if a 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 new or revised financial accounting standards provide pursuant to Section 13(a) of the Exchange Act.

HD Supply Holdings, Inc. ☐
HD Supply, Inc. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

HD Supply Holdings, Inc. Yes ☐ No ☒
HD Supply, Inc. Yes ☐ No ☒

The number of shares of the Registrant's common stock outstanding as of June 1, 2018:

HD Supply Holdings, Inc.	183,715,864 shares of common stock, par value $0.01 per share
HD Supply, Inc.	1,000 shares of common stock, par value $0.01 per share, all of which were owned by HDS Holding Corporation, a wholly-owned subsidiary of HD Supply Holdings, Inc.

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EXPLANATORY NOTE

This Form 10-Q is a combined quarterly report being filed separately by two registrants: HD Supply Holdings, Inc. and HD Supply, Inc. Unless the context indicates otherwise, any reference in this report to “Holdings” refers to HD Supply Holdings, Inc., any reference to “HDS” refers to HD Supply, Inc., the indirect wholly-owned subsidiary of Holdings, and any references to “HD Supply,” the “Company,” “we,” “us” and “our” refer to HD Supply Holdings, Inc. together with its direct and indirect subsidiaries, including HDS. Each registrant hereto is filing on its own behalf all of the information contained in this quarterly report that relates to such registrant. Each registrant hereto is not filing any information that does not relate to such registrant, and therefore makes no representation as to any such information.

FORWARD-LOOKING STATEMENTS AND INFORMATION

This quarterly report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Some of the forward-looking statements can be identified by the use of forward-looking terms such as “believes,” “expects,” “may,” “will,” “should,” “could,” “seeks,” “intends,” “plans,” “estimates,” “anticipates” or other comparable terms. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth strategies and the industries in which we operate.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which may be beyond our control. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industries in which we operate are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including those factors discussed in Item 1A, Risk Factors in our annual report on Form 10-K for the fiscal year ended January 28, 2018 and those described from time to time in our other filings with the U.S. Securities and Exchange Commission (the “SEC”). Factors that could cause actual results to differ from those reflected in forward-looking statements relating to our operations, financial condition and liquidity, and the development of industries in which we operate include:

- inherent risks of the maintenance, repair and operations market, and the non-residential and residential construction markets;
- our ability to maintain profitability;
- our ability to service our debt and to refinance all or a portion of our indebtedness;
- limitations and restrictions in the agreements governing our indebtedness;
- the competitive environment in which we operate and demand for our products and services in highly competitive and fragmented industries;
- the loss of any of our significant customers;
- competitive pricing pressure from our customers;
- our ability to identify and acquire suitable acquisition candidates on favorable terms;
- cyclicality and seasonality of the maintenance, repair and operations market and the non-residential and residential construction markets;

- our ability to identify and develop relationships with a sufficient number of qualified suppliers to maintain our supply chains;
- our ability to manage fixed costs;
- the development of alternatives to distributors in the supply chain;
- our ability to manage our working capital through product purchasing and customer credit policies;
- potential material liabilities under our self-insured programs;
- our ability to attract, train and retain highly-qualified associates and key personnel;
- new trade policies could make sourcing product from foreign countries more difficult and more costly;
- limitations on our income tax net operating loss carryforwards in the event of an ownership change; and
- our ability to identify and integrate new products.

You should read this report completely and with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this report are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this report and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking statements to reflect changes in assumptions, the occurrence of unanticipated events, changes in future operating results over time or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
Amounts in millions, except share and per share data, unaudited

	Three Months Ended	
	April 29, 2018	**April 30, 2017**
Net Sales	**$ 1,389**	$ 1,216
Cost of sales	**837**	732
Gross Profit	**552**	484
Operating expenses:		
Selling, general and administrative	**372**	334
Depreciation and amortization	**22**	21
Restructuring	**7**	—
Total operating expenses	**401**	355
Operating Income	**151**	129
Interest expense	**34**	49
Interest (income)	**(1)**	—
Loss on extinguishment of debt	—	3
Income from Continuing Operations Before Provision for Income Taxes	**118**	77
Provision for income taxes	**29**	19
Income from Continuing Operations	**89**	58
Income from discontinued operations, net of tax	—	27
Net Income	**$ 89**	$ 85
Other comprehensive income — foreign currency translation adjustment	**1**	1
Total Comprehensive Income	**$ 90**	$ 86
Weighted Average Common Shares Outstanding (thousands)		
Basic	**184,326**	200,708
Diluted	**185,155**	203,017
Basic Earnings Per Share*(1)*:		
Income from Continuing Operations	**$ 0.48**	$ 0.29
Income from Discontinued Operations	**$ —**	$ 0.13
Net Income	**$ 0.48**	$ 0.42
Diluted Earnings Per Share*(1)*:		
Income from Continuing Operations	**$ 0.48**	$ 0.29
Income from Discontinued Operations	**$ —**	$ 0.13
Net Income	**$ 0.48**	$ 0.42

(1) May not foot due to rounding.

The accompanying notes are an integral part of these consolidated financial statements.

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Amounts in millions, except share and per share data, unaudited

	April 29, 2018	January 28, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 150**	$ 558
Receivables, less allowance for doubtful accounts of $16 and $12	**728**	612
Inventories	**792**	674
Other current assets	**55**	31
Total current assets	**1,725**	1,875
Property and equipment, net	**344**	325
Goodwill	**1,984**	1,807
Intangible assets, net	**209**	91
Deferred tax asset	**160**	205
Other assets	**18**	15
Total assets	**$ 4,440**	$ 4,318
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 475**	$ 377
Accrued compensation and benefits	**74**	95
Current installments of long-term debt	**11**	11
Other current liabilities	**242**	138
Total current liabilities	**802**	621
Long-term debt, excluding current installments	**2,087**	2,090
Other liabilities	**60**	141
Total liabilities	**2,949**	2,852
Stockholders' equity:		
Common stock, par value $0.01; 1 billion shares authorized; 184.2 million and 185.7 million shares issued and outstanding at April 29, 2018 and January 28, 2018, respectively	**2**	2
Paid-in capital	**4,038**	4,029
Accumulated deficit	**(1,877)**	(1,966)
Accumulated other comprehensive loss	**(16)**	(17)
Treasury stock, at cost, 20.1 and 18.2 million shares at April 29, 2018 and January 28, 2018, respectively	**(656)**	(582)
Total stockholders' equity	**1,491**	1,466
Total liabilities and stockholders' equity	**$ 4,440**	$ 4,318

The accompanying notes are an integral part of these consolidated financial statements.

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Amounts in millions, unaudited

	Three Months Ended April 29, 2018	Three Months Ended April 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 89**	$ 85
Reconciliation of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	**24**	25
Provision for uncollectibles	**2**	2
Non-cash interest expense	**6**	3
Payment of discounts upon extinguishment of debt	**—**	(4)
Loss on extinguishment of debt	**—**	3
Stock-based compensation expense	**6**	6
Deferred income taxes	**27**	34
Other	**—**	(1)
Changes in assets and liabilities, net of the effects of acquisitions & dispositions:		
(Increase) decrease in receivables	**(66)**	(113)
(Increase) decrease in inventories	**(81)**	(83)
(Increase) decrease in other current assets	**(9)**	(3)
Increase (decrease) in accounts payable and accrued liabilities	**52**	129
Net cash provided by (used in) operating activities	**50**	83
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	**(19)**	(24)
Payments for businesses acquired, net	**(362)**	—
Proceeds from sales of property and equipment	**—**	2
Net cash provided by (used in) investing activities	**(381)**	(22)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock under employee benefit plans	**2**	25
Purchase of treasury shares	**(64)**	(9)
Tax withholdings on stock-based awards	**(6)**	—
Repayments of long-term debt	**(3)**	(100)
Borrowings on long-term revolver debt	**6**	75
Repayments on long-term revolver debt	**(9)**	(55)
Debt issuance and modification costs	**—**	(5)
Other financing activities	**(3)**	3
Net cash provided by (used in) financing activities	**(77)**	(66)
Effect of exchange rates on cash and cash equivalents	**—**	—
Increase (decrease) in cash and cash equivalents	**$ (408)**	$ (5)
Cash and cash equivalents at beginning of period	**558**	75
Cash and cash equivalents at end of period	**$ 150**	$ 70

The accompanying notes are an integral part of these consolidated financial statements.

HD SUPPLY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
Amounts in millions, unaudited

	Three Months Ended	
	April 29, 2018	**April 30, 2017**
Net Sales	**$ 1,389**	$ 1,216
Cost of sales	**837**	732
Gross Profit	**552**	484
Operating expenses:		
Selling, general and administrative	**372**	334
Depreciation and amortization	**22**	21
Restructuring	**7**	—
Total operating expenses	**401**	355
Operating Income	**151**	129
Interest expense	**34**	49
Interest (income)	**(1)**	—
Loss on extinguishment of debt	—	3
Income from Continuing Operations Before Provision for Income Taxes	**118**	77
Provision for income taxes	**29**	19
Income from Continuing Operations	**89**	58
Income from discontinued operations, net of tax	—	27
Net Income	**$ 89**	$ 85
Other comprehensive income — foreign currency translation adjustment	**1**	1
Total Comprehensive Income	**$ 90**	$ 86

The accompanying notes are an integral part of these consolidated financial statements.

HD SUPPLY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Amounts in millions, except share and per share data, unaudited

	April 29, 2018	January 28, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 147**	$ 558
Receivables, less allowance for doubtful accounts of $16 and $12	**728**	612
Inventories	**792**	674
Other current assets	**55**	31
Total current assets	**1,722**	1,875
Property and equipment, net	**344**	325
Goodwill	**1,984**	1,807
Intangible assets, net	**209**	91
Deferred tax asset	**160**	205
Other assets	**18**	15
Total assets	**$ 4,437**	$ 4,318
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	**$ 475**	$ 377
Accrued compensation and benefits	**74**	95
Current installments of long-term debt	**11**	11
Other current liabilities	**238**	138
Total current liabilities	**798**	621
Long-term debt, excluding current installments	**2,087**	2,090
Other liabilities	**60**	141
Total liabilities	**2,945**	2,852
Stockholder's equity:		
Common stock, par value $0.01; authorized 1,000 shares; issued and outstanding 1,000 shares at April 29, 2018 and January 28, 2018	**—**	—
Paid-in capital	**3,226**	3,290
Accumulated deficit	**(1,718)**	(1,807)
Accumulated other comprehensive loss	**(16)**	(17)
Total stockholder's equity	**1,492**	1,466
Total liabilities and stockholder's equity	**$ 4,437**	$ 4,318

The accompanying notes are an integral part of these consolidated financial statements.

HD SUPPLY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Amounts in millions, unaudited

	Three Months Ended			
	April 29, 2018		April 30, 2017	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	**$**	**89**	$	85
Reconciliation of net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization		**24**		25
Provision for uncollectibles		**2**		2
Non-cash interest expense		**6**		3
Payment of discounts upon extinguishment of debt		**—**		(4)
Loss on extinguishment of debt		**—**		3
Stock-based compensation expense		**6**		6
Deferred income taxes		**27**		34
Other		**—**		(1)
Changes in assets and liabilities, net of the effects of acquisitions & dispositions:				
(Increase) decrease in receivables		**(66)**		(113)
(Increase) decrease in inventories		**(81)**		(83)
(Increase) decrease in other current assets		**(9)**		(3)
Increase (decrease) in accounts payable and accrued liabilities		**52**		129
Net cash provided by (used in) operating activities		**50**		83
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures		**(19)**		(24)
Payments for businesses acquired, net		**(362)**		—
Proceeds from sales of property and equipment		**—**		2
Net cash provided by (used in) investing activities		**(381)**		(22)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Equity distribution to Parent		**(71)**		—
Repayments of long-term debt		**(3)**		(100)
Borrowings on long-term revolver debt		**6**		75
Repayments on long-term revolver debt		**(9)**		(55)
Debt issuance and modification costs		**—**		(5)
Other financing activities		**(3)**		3
Net cash provided by (used in) financing activities		**(80)**		(82)
Effect of exchange rates on cash and cash equivalents		**—**		—
Increase (decrease) in cash and cash equivalents	**$**	**(411)**	$	(21)
Cash and cash equivalents at beginning of period		**558**		73
Cash and cash equivalents at end of period	**$**	**147**	$	52

The accompanying notes are an integral part of these consolidated financial statements.

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 — NATURE OF BUSINESS AND BASIS OF PRESENTATION

Nature of Business

HD Supply Holdings, Inc. (''Holdings'') indirectly owns all of the outstanding common stock of HD Supply, Inc. ("HDS").

Holdings, together with its direct and indirect subsidiaries, including HDS ("HD Supply" or the "Company"), is one of the largest industrial distribution companies in North America. The Company specializes in two distinct market sectors: Maintenance, Repair & Operations and Specialty Construction. Through approximately 270 branches and 44 distribution centers, in the U.S. and Canada, the Company serves these markets with an integrated go-to-market strategy. HD Supply has approximately 11,000 associates delivering localized, customer-tailored products, services and expertise. The Company serves approximately 500,000 customers, which include contractors, maintenance professionals, industrial businesses, and government entities. HD Supply's broad range of end-to-end product lines and services includes approximately 650,000 stock-keeping units ("SKUs") of quality, name-brand and proprietary-brand products as well as value-add services supporting the entire life-cycle of a project from construction to maintenance, repair and operations.

HD Supply is managed primarily on a product line basis and reports results of operations in two reportable segments. The reportable segments are Facilities Maintenance and Construction & Industrial. In addition, the consolidated financial statements include Corporate and Eliminations, which is comprised of enterprise-wide functional departments.

Basis of Presentation

In management's opinion, the unaudited financial information for the interim periods presented includes all adjustments necessary for a fair statement of the results of operations, financial position, and cash flows. All adjustments are of a normal recurring nature unless otherwise disclosed. Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be the same as those for the full year. For a more complete discussion of the Company's significant accounting policies and other information, you should read this report in conjunction with the Company's annual report on Form 10-K for the year ended January 28, 2018, which includes all disclosures required by generally accepted accounting principles in the United States of America ("GAAP").

Fiscal Year

HD Supply's fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31. The fiscal year ending February 3, 2019 ("fiscal 2018") includes 53 weeks. The fiscal year ending January 28, 2018 ("fiscal 2017") includes 52 weeks. The three months ended April 29, 2018 ("first quarter 2018") and April 30, 2017 ("first quarter 2017") both include 13 weeks.

Principles of Consolidation

The consolidated financial statements of Holdings present the results of operations, financial position and cash flows of Holdings and its wholly-owned subsidiaries, including HDS. The consolidated financial statements of HDS present the results of operations, financial position and cash flows of HDS and its wholly-owned subsidiaries. All material intercompany balances and transactions are eliminated. Results of operations of businesses acquired are included from their respective dates of acquisition. The results of operations of all discontinued operations have been separately reported as discontinued operations for all periods presented.

Estimates

Management has 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 consolidated financial statements in conformity with GAAP. Actual results could differ from these estimates.

Self-Insurance

HD Supply has a high-deductible insurance program for most losses related to general liability, product liability, environmental liability, automobile liability, workers' compensation, and is self-insured for medical claims, while maintaining per employee stop-loss coverage, and certain legal claims. The expected ultimate cost for claims incurred as of the balance sheet date is not discounted and is recognized as a liability. Self-insurance losses for claims filed and claims incurred but not reported are accrued based upon estimates of the aggregate liability for uninsured claims using loss development factors and actuarial assumptions followed in the insurance industry and historical loss development experience. At April 29, 2018 and January 28, 2018, self-insurance reserves totaled approximately $56 million and $51 million, respectively.

NOTE 2 — ACQUISITION

HD Supply enters into strategic acquisitions to expand into new markets, new platforms, and new geographies in an effort to better service existing customers and attract new ones. In accordance with the acquisition method of accounting under Accounting Standards Codification ("ASC") 805, "Business Combinations" ("ASC 805"), the results of acquisitions completed by HD Supply are reflected in the Company's consolidated financial statements from the date of acquisition forward.

On March 5, 2018, the Company completed the acquisition of A.H. Harris Construction Supply ("A.H. Harris") for a total purchase price of approximately $362 million, net of cash acquired and subject to a final working capital adjustment. A.H. Harris is a leading specialty construction distributor serving the northeast and mid-Atlantic regions. This acquisition expands Construction & Industrial's market presence in the northeastern United States.

In accordance with ASC 805, the Company provisionally recorded the following assets and liabilities at fair value on the date of the A.H. Harris acquisition: $178 million in goodwill, $123 million in definite-lived intangible assets, $14 million in property & equipment, $64 million in net working capital, and $17 million in deferred tax liabilities. The total amount of goodwill expected to be deductible for tax purposes is $19 million. The definite-lived intangible assets are comprised of $110 million in customer relationships and $13 million of trade names that will be amortized over a period of 12 years and 5 years, respectively.

From March 5, 2018 to April 29, 2018, A.H. Harris generated $53 million in Net sales. During first quarter 2018, the Company incurred approximately $2 million of costs related to the acquisition and integration of A.H. Harris. The Company expects to incur a total of approximately $4 million of acquisition and integration costs during fiscal 2018.

NOTE 3 — DISCONTINUED OPERATIONS

In August 2017, the Company completed the sale of its Waterworks business. In accordance with ASC 205-20, "Discontinued Operations" and Accounting Standards Update ("ASU") 2014-08, "Reporting discontinued operations and disclosure of disposals of components of an entity," the results of Waterworks are classified as a discontinued operation. The presentation of discontinued operations includes revenues and expenses of the discontinued operations and gain/loss on the disposition of businesses, net of tax, as one line item on the Consolidated Statements of Operations and Comprehensive Income (Loss). All Consolidated Statements of Operations and Comprehensive Income (Loss) presented have been revised to reflect this presentation.

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table provides additional detail related to the results of operations of the discontinued operations (amounts in millions):

	Three Months Ended	
	April 29, 2018	April 30, 2017
Net sales	**$ —**	$ 657
Cost of sales	**—**	510
Gross Profit	**—**	147
Operating expenses:		
Selling, general and administrative	**—**	97
Depreciation and amortization	**—**	3
Total operating expenses	**—**	100
Operating Income	**—**	47
Other (income) expense, net	**—**	2
Income (loss) before provision for income taxes	**—**	45
Provision (benefit) for income taxes	**—**	18
Income (loss) from discontinued operations, net of tax	**$ —**	$ 27

The following table provides additional detail related to the net cash provided by operating and investing activities of the discontinued operations (amounts in millions):

	Three Months Ended	
	April 29, 2018	April 30, 2017
Net cash flows from operating activities	**$ —**	**$ 11**
Capital expenditures	—	(2)
Proceeds from sales of property and equipment, net	—	1
Proceeds from sales businesses, net	—	(2)
Net cash flows provided by (used in) investing activities	**$ —**	$ (3)

NOTE 4 — DEBT

HDS's long-term debt as of April 29, 2018 and January 28, 2018 consisted of the following (dollars in millions):

	April 29, 2018		January 28, 2018	
	Outstanding Principal	Interest Rate %(1)	Outstanding Principal	Interest Rate %(1)
Senior ABL Facility due 2022	**$ 52**	**2.91**	$ 58	2.86
Term B-3 Loans due 2021	**533**	**4.55**	534	3.94
Term B-4 Loans due 2023	**543**	**4.80**	544	4.19
April 2016 Senior Unsecured Notes due 2024	**1,000**	**5.75**	1,000	5.75
Total gross long-term debt	**$ 2,128**		$ 2,136	
Less unamortized discount	**(6)**		(6)	
Less unamortized deferred financing costs	**(24)**		(29)	
Total net long-term debt	**$ 2,098**		$ 2,101	
Less current installments	**(11)**		(11)	
Total net long-term debt, excluding current installments	**$ 2,087**		$ 2,090	

(1) *Represents the stated rate of interest, without including the effect of discounts or premiums.*

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Senior Credit Facilities

Asset Based Lending Facility

HDS's Senior Asset Based Lending Facility due 2022 (the "Senior ABL Facility") provides for senior secured revolving loans and letters of credit of up to a maximum aggregate principal amount of $1,000 million (subject to availability under a borrowing base). Extensions of credit under the Senior ABL Facility are limited by a borrowing base calculated periodically based on specified percentages of the value of eligible inventory and eligible accounts receivable, subject to certain reserves and other adjustments. A portion of the Senior ABL Facility is available for letters of credit and swingline loans. As of April 29, 2018, HDS had $904 million of Excess Availability (as defined in the agreement) under the Senior ABL Facility (after giving effect to the borrowing base limitations and approximately $27 million in letters of credit issued and including $174 million of borrowings available on qualifying cash balances). As of April 29, 2018, all outstanding borrowings on the Senior ABL Facility are Canadian borrowings.

At HDS's option, the interest rates applicable to the loans under the Senior ABL Facility are based (i) in the case of U.S. dollar-denominated loans, either at London Interbank Offered Rate ("LIBOR") plus an applicable margin, or Prime Rate plus an applicable margin and (ii) in the case of Canadian dollar-denominated loans, either the banker's acceptance ("BA") rate plus an applicable margin, or the Canadian Prime Rate plus an applicable margin. The margins applicable for each elected interest rate are subject to a pricing grid, as defined in the agreement governing the Senior ABL Facility, based on average excess availability for the previous fiscal quarter. The Senior ABL Facility also contains a letter of credit fee computed at a rate per annum equal to the Applicable Margin (as defined in the Senior ABL Facility agreement) then in effect for LIBOR Loans and an unused commitment fee subject to a pricing grid, included in the agreement governing the Senior ABL Facility, based on Excess Availability.

The Senior ABL Facility also permits HDS to add one or more incremental term loan facilities to be included in the Senior ABL Facility or one or more revolving credit facility commitments to be included in the Senior ABL Facility.

Per the Third Amendment to the credit agreement governing the existing Senior ABL Facility, the Senior ABL Facility will mature on April 5, 2022 (the stated "Maturity Date") or 60 days before the maturity date of any outstanding principal balance that is greater than or equal to $250 million ("Material Indebtedness") unless, before such date, the Material Indebtedness has been (a) refinanced to extend the maturity date at least 60 days after the stated Maturity Date, (b) adequately reserved for by the Administrative Agent, (c) cash collateralized pursuant to arrangements reasonably acceptable to the Administrative Agent, or (d) any combination of the above actions or items.

Senior Term Loan Facility

HDS's Senior Term Facility ("the Senior Term Facility") consists of a senior secured term loan facility (the ''Term Loan Facility,'' and the term loans thereunder, the ''Term Loans'') providing for Term Loans in an original aggregate principal amount of $1,081 million. The tranche of term loans in an original aggregate principal amount of $535 million (the "Term B-3 Loans") will mature on August 13, 2021. The tranche of term loans in an original aggregate principal amount of $546 million (the "Term B-4 Loans") will mature on October 17, 2023. Both the Term B-3 Loans and the Term B-4 Loans amortize in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount of the Term Loans with the balances payable on their respective maturity dates. The Term B-3 Loans bear interest at the applicable margin for borrowings of 2.25% for LIBOR borrowings and 1.25% for base rate borrowings. The Term B-4 Loans bear interest at the applicable margin for borrowings of 2.50% for LIBOR borrowings and 1.50% for base rate borrowings.

For additional information on our Senior ABL Facility or Senior Term Facility (collectively, the "Senior Credit Facilities"), including guarantees and security, please refer to the Notes to the Consolidated Financial Statements of our Form 10-K for the fiscal year ended January 28, 2018.

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Unsecured Notes

5.75% Senior Unsecured Notes due 2024

HDS's 5.75% Senior Unsecured Notes due 2024 (the "April 2016 Senior Unsecured Notes") bear interest at a rate of 5.75% until April 15, 2019 and 7.00% per annum from April 15, 2019 until maturity on April 15, 2024. Interest is paid semi-annually on April 15th and October 15th of each year.

Redemption

HDS may redeem the April 2016 Senior Unsecured Notes, in whole or in part, at any time (1) prior to April 15, 2019, at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, plus the applicable make-whole premium set forth in the April 2016 Senior Unsecured Notes indenture and (2) on and after April 15, 2019, at the applicable redemption price set forth below (expressed as a percentage of principal amount), plus accrued and unpaid interest, if any, to the relevant redemption date, if redeemed during the 12-month period commencing on April 15 of the year set forth below.

Year	Percentage
2019	104.313%
2020	102.875%
2021	101.438%
2022 and thereafter	100.000%

In addition, at any time prior to April 15, 2019, HDS may redeem on one or more occasions up to 40% of the aggregate principal amount of the April 2016 Senior Unsecured Notes with the proceeds of certain equity offerings at a redemption price of 105.75% of the principal amount in respect of the April 2016 Senior Unsecured Notes being redeemed, plus accrued and unpaid interest to the redemption date, provided, however, that if the April 2016 Senior Unsecured Notes are redeemed, an aggregate principal amount of April 2016 Senior Unsecured Notes equal to at least 50% of the original aggregate principal amount of April 2016 Senior Unsecured Notes must remain outstanding immediately after each such redemption of April 2016 Senior Unsecured Notes.

For additional information on the April 2016 Senior Unsecured Notes, including guarantees and security, please refer to the Notes to the Consolidated Financial Statements of our Form 10-K for the fiscal year ended January 28, 2018.

Debt covenants

HDS's outstanding debt agreements contain various restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, dividend payments and restrictions on the use of proceeds from asset dispositions. As of April 29, 2018, HDS was in compliance with all such covenants that were in effect on such date.

NOTE 5 — FAIR VALUE MEASUREMENTS

The fair value measurements and disclosure principles of GAAP (ASC 820, "Fair Value Measurements and Disclosures") define fair value, establish a framework for measuring fair value and provide disclosure requirements about fair value measurements. These principles define a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 — Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly and;

Level 3 — Unobservable inputs in which little or no market activity exists.

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The Company's financial instruments that are not reflected at fair value on the Consolidated Balance Sheets were as follows as of April 29, 2018 and January 28, 2018 (amounts in millions):

	As of April 29, 2018		As of January 28, 2018	
	Recorded Amount(1)	Estimated Fair Value	Recorded Amount(1)	Estimated Fair Value
Senior ABL Facility	**$ 52**	**$ 52**	$ 58	$ 57
Term Loans and Notes	**2,076**	**2,137**	2,078	2,158
Total	**$ 2,128**	**$ 2,189**	$ 2,136	$ 2,215

(1) These amounts do not include accrued interest; accrued interest is classified as Other current liabilities in the accompanying Consolidated Balance Sheets. These amounts do not include any related discounts, premiums, or deferred financing costs.

The Company utilized Level 2 inputs, as defined in the fair value hierarchy, to measure the fair value of the long-term debt. Management's fair value estimates were based on quoted prices for recent trades of HDS's long-term debt, recent similar credit facilities initiated by companies with like credit quality in similar industries, quoted prices for similar instruments, and inquiries with certain investment communities.

NOTE 6 — INCOME TAXES

For the three months ended April 29, 2018, the Company's combined federal, state, and foreign effective tax rate for continuing operations was 24.6%. The effective rate for continuing operations for the three months ended April 30, 2017 was 24.7%. The effective rate in first quarter 2017 was meaningfully impacted by the exercise and vesting of stock-based awards, which lowered the effective rate by approximately 1,450 basis points.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was signed into law making significant changes to the Internal Revenue Code. The Tax Act lowered the Company's federal statutory rate from 35% to 21%. The Company's effective tax rate will vary based on a variety of factors, including overall profitability, the geographical mix of income before taxes and the related tax rates in the jurisdictions where it operates, restructuring and other one-time charges, as well as discrete events, such as settlements of future audits. The Company continues to evaluate the impact of the Tax Act on its election to indefinitely reinvest certain of its non-U.S. earnings.

As of April 29, 2018 and January 28, 2018, the Company's unrecognized tax benefits in accordance with the income taxes principles of GAAP (ASC 740, "Income Taxes") were $16 million. The Company's ending net accrual for interest and penalties related to unrecognized tax benefits as of April 29, 2018 and January 28, 2018 was zero. As of April 29, 2018 and January 28, 2018, the Company's valuation allowance on its U.S. deferred tax assets was approximately $7 million. Each reporting period, the Company assesses available positive and negative evidence and estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets.

NOTE 7—BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES

The following basic and diluted weighted average common shares information is provided for Holdings.

The reconciliation of basic to diluted weighted average common shares for the three months ended April 29, 2018 and April 30, 2017 was as follows (in thousands):

	Three Months Ended	
	April 29, 2018	April 30, 2017
Weighted-average common shares	184,326	200,708
Effect of potentially dilutive stock plan securities	829	2,309
Diluted weighted-average common shares	185,155	203,017
Stock plan securities excluded from dilution (1)	2,007	1,294

(1) *Represents securities not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.*

Stock plan securities consist of securities (stock options, restricted stock, restricted stock units and performance share units) granted under Holdings' stock-based compensation plans.

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NOTE 8 — SUPPLEMENTAL BALANCE SHEET AND CASH FLOW INFORMATION

Receivables

Receivables as of April 29, 2018 and January 28, 2018 consisted of the following (amounts in millions):

	April 29, 2018	January 28, 2018
Trade receivables, net of allowance for doubtful accounts	**$ 662**	$ 540
Vendor rebate receivables	**53**	58
Other receivables	**13**	14
Total receivables, net	**$ 728**	$ 612

Other Current Liabilities

Other current liabilities as of April 29, 2018 and January 28, 2018 consisted of the following (amounts in millions):

	HD Supply Holdings, Inc.		HD Supply, Inc.	
	April 29, 2018	January 28, 2018	April 29, 2018	January 28, 2018
Corporate headquarters financing liability	**$ 87**	**$ —**	**$ 87**	**$ —**
Accrued non-income taxes	**36**	27	**36**	27
Accrued interest	**7**	21	**7**	21
Refund liability (1)	**17**	—	**17**	—
Unsettled share repurchases	**4**	—	—	—
Other	**91**	90	**91**	90
Total other current liabilities	**$ 242**	$ 138	**$ 238**	$ 138

(1) This amount represents the Company's sales return estimate as of April 29, 2018 classified as a Current liability within the Consolidated Balance Sheet as required per ASC 606, Revenue from Contracts with Customers. The sales return estimate as of January 28, 2018 was approximately $12 million and was classified within Net receivables within the Consolidated Balance Sheet.

Supplemental Cash Flow Information

Cash paid for interest in the three months ended April 29, 2018 and April 30, 2017 was $42 million and $44 million, respectively. During the three months ended April 30, 2017, the Company paid $4 million of original issue discounts related to the extinguishment of debt.

Cash paid for income taxes, net of refunds, in the three months ended April 29, 2018 and April 30, 2017 was approximately $2 million and $3 million, respectively.

During the three months ended April 30, 2018, HDS executed a cash equity distribution of $71 million to Holdings, via HDS's direct parent, HDS Holding Corporation. The equity distribution from HDS and return of capital recognized by Holdings were eliminated in consolidation of Holdings and its wholly-owned subsidiaries, including HDS.

On August 25, 2017, Holdings' Board of Directors authorized the Company to enter into a share repurchase program for the repurchase of up to an aggregate amount of $500 million of Holdings' common stock. During the three months ended April 29, 2018, under this plan, Holdings repurchased 1,774,089 shares of its common stock for approximately $67 million, of which $4 million remain unsettled as of April 29, 2018.

In combination with the 2014 authorized share repurchase plan (utilizing proceeds from employee stock option exercises), Holdings repurchased a total of 1,806,531 shares of its common stock during the three months ended April 29, 2018 for approximately $68 million.

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Significant Non-Cash Transactions

Build-to-Suit Lease

In February 2016, the Company entered into a build-to-suit arrangement for a leadership development and headquarters facility in Atlanta, Georgia, which began construction in 2016. In accordance with ASC 840, "Leases," for build-to-suit arrangements where the Company is involved in the construction of structural improvements prior to the commencement of the lease or takes some level of construction risk, the Company is considered the owner of the assets and land during the construction period. Accordingly, during construction activities, the Company recorded a Construction in progress asset within Property and equipment and a corresponding financing liability on the Consolidated Balance Sheet for construction costs incurred by the landlord.

The lease commenced in February 2018, with the leased asset and corresponding financing liability valued at $87 million each. In accordance with the sale and leaseback criteria of GAAP, the build-to-suit arrangement and subsequent lease failed to qualify as a sale. Therefore, the transaction is accounted for as a financing arrangement, whereby both the leased asset and the financing liability remain on the Company's Consolidated Balance Sheet. The asset is depreciated as if the Company is the legal owner and rental payments are allocated between interest expense and principal repayment of the financing liability.

In April 2018, the Company exercised its option to purchase the leased asset in February 2019 for $87 million. As a result, the financing liability is classified as a Current liability within the Consolidated Balance Sheet.

NOTE 9—RESTRUCTURING ACTIVITIES

Fiscal 2017 Plan

As a result of the sale of the Waterworks business in fiscal 2017, management evaluated the Company's alignment and functional support strategies. During fiscal 2017, the Company initiated a restructuring plan that included reducing workforce personnel, realigning talent, and closing a C&I branch. In addition, the Company relocated its headquarters in first quarter 2018. During the three months ended April 29, 2018, the Company recognized $7 million of restructuring charges, primarily related to property lease obligations upon exiting the Company's previous headquarters location, and, to a lesser extent, severance and other employee-related costs.

During fiscal 2017, the Company recognized $6 million of restructuring changes under this plan. Management expects to incur a total of $13 million to $15 million under this plan and expects a payback of the employee-related costs via a reduction in personnel costs over the next one to two years. The Company is actively pursuing buyout options and subleasing opportunities for the leased property prior to its lease expiration in October 2020.

Payments for severance and employee-related costs incurred under this plan are expected to be substantially complete by the end of fiscal 2018. Payments related to the property lease obligations of the exited property will continue until the expiration of the lease in October 2020 or until a buyout option is negotiated.

The following table presents the activity for the liability balances, included in Other current liabilities and Other liabilities in the Consolidated Balance Sheets (amounts in millions):

	Severance	Relocation & Other Costs	Occupancy Costs	Total
Balance—January 28, 2018	**$ 2**	**$ 1**	**$ —**	**$ 3**
Charges	**1**	**1**	**5**	**7**
Cash payments	(2)	(1)	—	(3)
Balance—April 29, 2018	**$ 1**	**$ 1**	**$ 5**	**$ 7**

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NOTE 10 — COMMITMENTS AND CONTINGENCIES

Legal Matters

On July 10, 2017 and August 8, 2017, shareholders filed putative class action complaints in the U.S. District Court for the Northern District of Georgia, alleging that HD Supply and certain senior members of its management (collectively, the "defendants") made certain false or misleading public statements in violation of the federal securities laws between November 9, 2016 and June 5, 2017, inclusive (the "original securities complaints"). Subsequently, the two securities cases were consolidated, and, on November 16, 2017, the lead plaintiffs appointed by the Court filed a Consolidated Amended Class Action Complaint (the "Amended Complaint") against the defendants on behalf of all persons other than defendants who purchased or otherwise acquired the Company's common stock between November 9, 2016 and June 5, 2017, inclusive. The Amended Complaint alleges that defendants made certain false or misleading public statements, primarily relating to the Company's progress in addressing certain supply chain disruption issues encountered in the Company's Facilities Maintenance business unit. The Amended Complaint asserts claims against the defendants under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5, and seeks class certification under the Federal Rules of Civil Procedure, as well as unspecified monetary damages, pre-judgment and post-judgment interest, and attorneys' fees and other costs. Defendants moved to dismiss the Consolidated Amended Complaint in December 2017. That motion is pending.

On August 8, 2017, two shareholder derivative complaints were filed naming the Company as a "nominal defendant" and certain members of its senior management and board of directors (collectively, the "individual defendants") as defendants. The complaints generally allege that the individual defendants caused the Company to issue false and misleading statements concerning the Company's business, operations, and financial prospects, including misrepresentations regarding operating leverage and supply chain corrective actions. The complaints assert claims against the individual defendants under Section 14(a) of the Securities Exchange Act of 1934, and allege breaches of fiduciary duties, unjust enrichment, corporate waste, and insider selling. The complaints assert a claim to recover any damages sustained by the Company as a result of the individual defendants' allegedly wrongful actions, seek certain actions by the Company to modify its corporate governance and internal procedures, and seek to recover attorneys' fees and other costs. In October 2017, the Court consolidated the two derivative actions and granted the parties' joint scheduling order request. On December 5, 2017, the Court entered an order staying all activity in the case until a ruling is issued on the motion to dismiss filed in the consolidated securities litigation described above. The Company intends to defend these lawsuits vigorously. Given the stage of the complaints and the claims and issues presented in the above matters, the Company cannot reasonably estimate at this time the possible loss or range of loss, if any, that may arise from these unresolved lawsuits.

HD Supply is involved in various legal proceedings arising in the normal course of its business. The Company establishes reserves for litigation and similar matters when those matters present loss contingencies that it determines to be both probable and reasonably estimable in accordance with ASC 450, "Contingencies." In the opinion of management, based on current knowledge, all reasonably estimable and probable matters are believed to be adequately reserved for or covered by insurance and are not expected to have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows. For all other matters management believes the possibility of losses from such matters is not probable, the potential loss from such matters is not reasonably estimable, or such matters are of such kind or involve such amounts that would not have a material adverse effect on the financial position, results of operations or cash flows of the Company if disposed of unfavorably. For material matters that are reasonably possible and reasonably estimable, including matters that are probable and estimable but for which the amount that is reasonably possible is in excess of the amount that the Company has accrued for, management has estimated the aggregate range of potential loss as $0 to $10 million. If a material loss is probable or reasonably possible, and in either case estimable, the Company has considered it in the analysis and it is included in the discussion set forth above.

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NOTE 11 — SEGMENT INFORMATION

HD Supply's operating segments are based on management structure and internal reporting. Each segment offers different products and services to the end customer, except for Corporate, which provides general corporate overhead support. The Company determines its reportable segments in accordance with the principles of segment reporting within ASC 280, "Segment Reporting." For purposes of evaluation under these segment reporting principles, the Chief Operating Decision Maker for HD Supply assesses HD Supply's ongoing performance, based on the periodic review and evaluation of Net sales, Adjusted EBITDA and certain other measures for each of the operating segments.

HD Supply has two reportable segments, each of which is presented below:

- *Facilities Maintenance*—Facilities Maintenance distributes maintenance, repair and operations products, provides value-add services and fabricates custom products to multifamily, hospitality, healthcare and institutional facilities.

- *Construction & Industrial*—Construction & Industrial distributes specialized hardware, tools, engineered materials and safety products to non-residential and residential contractors. Construction & Industrial also offers light remodeling and construction supplies, kitchen and bath cabinets, windows, plumbing materials, electrical equipment and other products, primarily to small remodeling contractors and trade professionals.

In addition to the reportable segments, the Company's consolidated financial results include Corporate. Corporate incurs costs related to the Company's centralized support functions, which are comprised of finance, information technology, human resources, legal, supply chain and other support services. All Corporate overhead costs are allocated to the reportable segments. Interest expense, interest income, other non-operating income and expenses, and provision for income taxes are not allocated to the Company's reportable segments. Eliminations include the adjustments necessary to eliminate intercompany transactions.

The following tables present Net sales, Adjusted EBITDA, and other measures for each of the reportable segments and total continuing operations for the periods indicated (amounts in millions):

	Facilities Maintenance	Construction & Industrial	Eliminations	Total Continuing Operations
Three Months Ended April 29, 2018				
Net sales	**$ 723**	**$ 666**	**$ —**	**$ 1,389**
Adjusted EBITDA	**123**	**67**	—	**190**
Depreciation(1) & Software Amortization	**9**	**10**	—	**19**
Other Intangible Amortization	**2**	**3**	—	**5**
Three Months Ended April 30, 2017				
Net sales	$ 682	$ 536	$ (2)	$ 1,216
Adjusted EBITDA	108	49	—	157
Depreciation(1) & Software Amortization	9	10	—	19
Other Intangible Amortization	2	1	—	3

(1) Depreciation includes amounts recorded within Cost of sales in the Consolidated Statements of Operations.

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Reconciliation to Consolidated Financial Statements

	Three Months Ended	
	April 29, 2018	April 30, 2017
Total Adjusted EBITDA	**$ 190**	$ 157
Depreciation and amortization(1)	**24**	22
Stock-based compensation	**6**	6
Restructuring	**7**	—
Acquisition and integration costs (2)	**2**	—
Operating income	**151**	129
Interest expense	**34**	49
Interest (income)	**(1)**	—
Loss on extinguishment of debt(3)	**—**	3
Income from Continuing Operations Before Provision for Income Taxes	**118**	77
Provision for income taxes	**29**	19
Income from continuing operations	**89**	58
Income from discontinued operations, net of tax	**—**	27
Net income	**$ 89**	$ 85

(1) Depreciation and amortization includes amounts recorded within Cost of sales in the Consolidated Statements of Operations.
(2) Represents the cost incurred in the acquisition and integration of A.H. Harris Construction Supplies.
(3) Represents the loss on extinguishment of debt including the write-off of unamortized deferred financing costs, original issue discount, and other assets or liabilities associated with such debt.

On March 5, 2018, the Company completed the acquisition of A.H. Harris for a total purchase price of approximately $362 million, net of cash acquired. A.H. Harris is included in the Construction & Industrial reportable segment. The acquisition reduced total assets of the Corporate reportable segment by the purchase price and increased total assets of the Construction & Industrial reportable segment by approximately $412 million

NOTE 12—SUBSIDIARY GUARANTORS

HDS (the “Debt Issuer”) has outstanding April 2016 Senior Unsecured Notes, which are guaranteed by certain of its subsidiaries (the “Subsidiary Guarantors”). The Subsidiary Guarantors are direct or indirect wholly-owned domestic subsidiaries of HDS. The subsidiaries of HDS that do not guarantee the April 2016 Senior Unsecured Notes (the “Non-guarantor Subsidiaries”) are direct or indirect wholly-owned subsidiaries of HDS and primarily include HDS’s operations in Canada.

The Debt Issuer’s payment obligations under the April 2016 Senior Unsecured Notes are jointly and severally guaranteed by the guarantors and all guarantees are full and unconditional.

These guarantees are subject to release under the circumstances as described below:

(i) concurrently with any direct or indirect sale or disposition (by merger or otherwise) of any Subsidiary Guarantor or any interest therein in accordance with the terms of the applicable indebtedness by HDS or a restricted subsidiary, following which such Subsidiary Guarantor is no longer a restricted subsidiary of HDS;

(ii) at any time that such Subsidiary Guarantor is released from all of its obligations under all of its guarantees of payment of any indebtedness of HDS or any Subsidiary Guarantor under all other indebtedness and is not a borrower under the Senior ABL Facility;

(iii) upon the merger or consolidation of any Subsidiary Guarantor with and into HDS or another Subsidiary Guarantor that is the surviving entity in such merger or consolidation, or upon the liquidation of such Subsidiary Guarantor following the transfer of all of its assets to HDS or another Subsidiary Guarantor;

(iv) concurrently with any Subsidiary Guarantor becoming an unrestricted subsidiary;

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(v) during the period when the rating on the April 2016 Senior Unsecured Notes is changed to investment grade and certain covenants cease to apply while such investment grade rating is maintained, upon the merger or consolidation of any Subsidiary Guarantor with and into another subsidiary that is not a Subsidiary Guarantor with such other subsidiary being the surviving entity in such merger or consolidation, or upon liquidation of such Subsidiary Guarantor following the transfer of all of its assets to a subsidiary that is not a Subsidiary Guarantor;

(vi) upon legal or covenant defeasance of HDS's obligations under the applicable indebtedness, or satisfaction and discharge of the indenture governing the applicable indebtedness; or

(vii) subject to customary contingent reinstatement provisions, upon payment in full of the aggregate principal amount of all applicable indebtedness then outstanding and all other obligations guaranteed by a Subsidiary Guarantor then due and owing.

In addition, HDS has the right, upon 30 days' notice to the applicable trustee, to cause any Subsidiary Guarantor that has not guaranteed payment of any indebtedness of HDS or any Subsidiary Guarantor under all other indebtedness and is not a borrower under the Senior ABL Facility to be unconditionally released from all obligations under its Subsidiary Guarantee, and such Subsidiary Guarantee shall thereupon terminate and be discharged and of no further force or effect.

In connection with the issuance of the April 2016 Senior Unsecured Notes, HDS determined the need for compliance with Rule 3-10 of SEC Regulation S-X. In lieu of providing separate audited financial statements for the Guarantor Subsidiaries, HDS has included the accompanying Condensed Consolidating Financial Statements in accordance with Rule 3-10(f) of SEC Regulation S-X. The following supplemental financial information sets forth, on a consolidating basis under the equity method of accounting, the condensed statements of operations and comprehensive income (loss), the condensed balance sheets and the condensed cash flow statements for the Debt Issuer, for the Subsidiary Guarantors and the Non-guarantor Subsidiaries and total consolidated Debt Issuer and subsidiaries (amounts in millions).

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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended April 29, 2018				
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS
Net Sales	$ —	$ 1,352	**$ 37**	**$ —**	**$ 1,389**
Cost of sales	—	818	19	—	837
Gross Profit	—	534	**18**	—	**552**
Operating expenses:					
Selling, general and administrative	21	337	14	—	372
Depreciation and amortization	4	18	—	—	22
Restructuring	5	2	—	—	7
Total operating expenses	30	357	14	—	401
Operating Income (Loss)	**(30)**	**177**	**4**	—	**151**
Interest expense	37	22	—	(25)	34
Interest (income)	(22)	(4)	—	25	(1)
Net (earnings) loss of equity affiliates	(161)	—	—	161	—
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	116	159	4	(161)	118
Provision (benefit) for income taxes	27	1	1	—	29
Income (Loss) from Continuing Operations	**89**	**158**	**3**	**(161)**	**89**
Income (loss) from discontinued operations, net of tax	—	—	—	—	—
Net Income (Loss)	**$ 89**	**$ 158**	**$ 3**	**$ (161)**	**$ 89**
Other comprehensive income (loss)—foreign currency translation adjustment	1	—	1	(1)	1
Total Comprehensive Income (Loss)	**$ 90**	**$ 158**	**$ 4**	**$ (162)**	**$ 90**

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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (CONTINUED)

	Three Months Ended April 30, 2017				
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS
Net Sales	$ —	$ **1,185**	$ **32**	$ **(1)**	$ **1,216**
Cost of sales	—	716	17	(1)	732
Gross Profit	—	**469**	**15**	—	**484**
Operating expenses:					
Selling, general and administrative	21	301	12	—	334
Depreciation and amortization	4	17	—	—	21
Total operating expenses	25	318	12	—	355
Operating Income (Loss)	**(25)**	**151**	**3**	—	**129**
Interest expense	56	34	1	(42)	49
Interest (income)	(34)	(8)	—	42	—
Loss on extinguishment of debt	3	—	—	—	3
Net (earnings) loss of equity affiliates	(155)	—	—	155	—
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	105	125	2	**(155)**	77
Provision (benefit) for income taxes	18	1	—	—	19
Income (Loss) from Continuing Operations	**87**	**124**	**2**	**(155)**	**58**
Income (loss) from discontinued operations, net of tax	(2)	29	—	—	27
Net Income (Loss)	$ **85**	$ **153**	$ **2**	$ **(155)**	$ **85**
Other comprehensive income (loss)—foreign currency translation adjustment	1	—	1	(1)	1
Total Comprehensive Income (Loss)	$ **86**	$ **153**	$ **3**	$ **(156)**	$ **86**

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CONDENSED CONSOLIDATING BALANCE SHEETS

	As of April 29, 2018				
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS
ASSETS					
Current assets:					
Cash and cash equivalents	$ 126	$ 17	$ 4	$ —	$ 147
Receivables, net	3	703	22	—	728
Inventories	—	772	20	—	792
Intercompany receivables	—	1	—	(1)	—
Other current assets	17	37	1	—	55
Total current assets	146	1,530	47	(1)	1,722
Property and equipment, net	159	183	2	—	344
Goodwill	—	1,984	—	—	1,984
Intangible assets, net	—	208	1	—	209
Deferred tax asset	238	—	2	(80)	160
Investment in subsidiaries	4,162	—	—	(4,162)	—
Intercompany notes receivable	189	1,165	—	(1,354)	—
Other assets	14	4	—	—	18
Total assets	**$ 4,908**	**$ 5,074**	**$ 52**	**$ (5,597)**	**$ 4,437**
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	$ 11	$ 447	$ 17	$ —	$ 475
Accrued compensation and benefits	29	43	2	—	74
Current installments of long-term debt	11	—	—	—	11
Intercompany payables	—	—	1	(1)	—
Other current liabilities	120	112	6	—	238
Total current liabilities	171	602	26	(1)	798
Long-term debt, excluding current installments	2,035	—	52	—	2,087
Deferred tax liabilities	—	80	—	(80)	—
Intercompany notes payable (1)	1,165	189	—	(1,354)	—
Other liabilities	45	15	—	—	60
Total liabilities	**3,416**	**886**	**78**	**(1,435)**	**2,945**
Stockholder's equity (deficit)	1,492	4,188	(26)	(4,162)	1,492
Total liabilities and stockholder's equity (deficit)	**$ 4,908**	**$ 5,074**	**$ 52**	**$ (5,597)**	**$ 4,437**

(1) During the three months ended April 29, 2018, the Parent completed a non-cash debt contribution to the Guarantor Subsidiaries of approximately $958 million.

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CONDENSED CONSOLIDATING BALANCE SHEETS (CONTINUED)

	As of January 28, 2018				
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS
ASSETS					
Current assets:					
Cash and cash equivalents	$ 539	$ 15	$ 4	$ —	$ 558
Receivables, net	7	584	21	—	612
Inventories	—	654	20	—	674
Intercompany receivables	—	2	—	(2)	—
Other current assets	15	15	1	—	31
Total current assets	561	1,270	46	(2)	1,875
Property and equipment, net	152	170	3	—	325
Goodwill	—	1,807	—	—	1,807
Intangible assets, net	—	90	1	—	91
Deferred tax asset	264	—	2	(61)	205
Investment in subsidiaries	2,811	—	—	(2,811)	—
Intercompany notes receivable	1,005	1,083	—	(2,088)	—
Other assets	12	3	—	—	15
Total assets	**$ 4,805**	**$ 4,423**	**$ 52**	**$ (4,962)**	**$ 4,318**
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	$ 11	$ 353	$ 13	$ —	$ 377
Accrued compensation and benefits	34	57	4	—	95
Current installments of long-term debt	11	—	—	—	11
Intercompany payables	—	—	2	(2)	—
Other current liabilities	43	88	7	—	138
Total current liabilities	99	498	26	(2)	621
Long-term debt, excluding current installments	2,032	—	58	—	2,090
Deferred tax liabilities	—	61	—	(61)	—
Intercompany notes payable	1,083	1,005	—	(2,088)	—
Other liabilities	125	16	—	—	141
Total liabilities	**3,339**	**1,580**	**84**	**(2,151)**	**2,852**
Stockholder's equity (deficit)	1,466	2,843	(32)	(2,811)	1,466
Total liabilities and stockholder's equity (deficit)	**$ 4,805**	**$ 4,423**	**$ 52**	**$ (4,962)**	**$ 4,318**

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CONDENSED CONSOLIDATING CASH FLOW STATEMENTS

	Three Months Ended April 29, 2018				
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS
Net cash flows from operating activities	**$ 113**	**$ (66)**	**$ 3**	**$ —**	**$ 50**
Cash flows from investing activities					
Capital expenditures	(9)	(10)	—	—	(19)
Payments for businesses acquired, net	—	—	(362)	—	(362)
Proceeds from sales of property and equipment	—	—	—	—	—
Investments in equity affiliates (1)	(365)	—	(3)	368	—
Proceeds from (payments of) intercompany notes	—	75	—	(75)	—
Net cash flows from investing activities	**$ (374)**	**$ 65**	**$ (365)**	**$ 293**	**$ (381)**
Cash flows from financing activities					
Equity contribution (distribution) (1)	(71)	3	365	(368)	(71)
Borrowings of (repayments of) intercompany notes	(75)	—	—	75	—
Repayments of long-term debt	(3)	—	—	—	(3)
Borrowings on long-term revolver debt	—	—	6	—	6
Repayments on long-term revolver debt	—	—	(9)	—	(9)
Other financing activities	(3)	—	—	—	(3)
Net cash flows from financing activities	**(152)**	**3**	**362**	**(293)**	**(80)**
Effect of exchange rates on cash	—	—	—	—	—
Net increase (decrease) in cash & cash equivalents	**$ (413)**	**$ 2**	**$ —**	**$ —**	**$ (411)**
Cash and cash equivalents at beginning of period	539	15	4	—	558
Cash and cash equivalents at end of period	**$ 126**	**$ 17**	**$ 4**	**$ —**	**$ 147**

(1) *During the three months ended April 29, 2018, the Parent completed a cash contribution of approximately $365 million to a Non-Guarantor Subsidiary to execute the purchase of A.H. Harris. Subsequent to the acquisition, the A.H. Harris entities became Guarantor Subsidiaries.*

	Three Months April 30, 2017				
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS
Net cash flows from operating activities	**$ 139**	**$ (56)**	**$ —**	**$ —**	**$ 83**
Cash flows from investing activities					
Capital expenditures	(6)	(18)	—	—	(24)
Proceeds from sales of property and equipment	—	2	—		2
Proceeds from (payments of) intercompany notes	—	73	—	(73)	—
Net cash flows from investing activities	**$ (6)**	**$ 57**	**$ —**	**$ (73)**	**$ (22)**
Cash flows from financing activities					
Borrowings of (repayments of) intercompany notes	(73)	—	—	73	—
Repayments of long-term debt	(100)	—	—	—	(100)
Borrowings on long-term revolver debt	75	—	—	—	75
Repayments on long-term revolver debt	(54)	—	(1)	—	(55)
Debt issuance costs	(5)	—	—	—	(5)
Other financing activities	3	—	—	—	3
Net cash flows from financing activities	**(154)**	**—**	**(1)**	**73**	**(82)**
Effect of exchange rates on cash	—	—	—	—	—
Net increase (decrease) in cash & cash equivalents	**$ (21)**	**$ 1**	**$ (1)**	**$ —**	**$ (21)**
Cash and cash equivalents at beginning of period	51	17	5	—	73
Cash and cash equivalents at end of period	**$ 30**	**$ 18**	**$ 4**	**$ —**	**$ 52**

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NOTE 13 — REVENUE

The Company's revenues are earned from contracts with customers. Contracts include written agreements, as well as arrangements that are implied by customary practices or law.

The Company adopted the provisions of ASC 606, Revenue from Contracts with Customers, and related amendments ("ASC 606") using the modified retrospective method on January 29, 2018 (the first day of fiscal 2018). The Company concluded that most of its contracts with customers consist of a single performance obligation to transfer promised goods or services and therefore are not impacted by the adoption of ASC 606. The adoption of ASC 606 impacted the Company's method of recognizing certain installation income, which was generally recognized when the customer order was fully installed. ASC 606 requires installation income to be recognized as each performance obligation within a contract is completed. The Company's installation contracts are typically completed in less than 90 days. Due to the seasonal nature of the Company's installation business, recognized revenue could shift between quarters within the year. The adoption of ASC 606 did not have a material impact on the Company's financial position, results of operations or cash flows. As such, the Company did not make any adjustments to its financial position upon adoption.

Nature of Products and Services

Both Facilities Maintenance and Construction & Industrial serve unique end markets. Facilities Maintenance offers products that serve the maintenance, repair and operations ("MRO") end market as well as value-added services. Construction & Industrial offers products used broadly across both the residential and non-residential construction end markets as well as light remodeling supplies for small remodeling contractors and trade professionals. For additional information regarding the nature of products and services offered by the Company's reportable segments, see "Description of segments" within Item 2 of this report on Form 10-Q.

Revenue Recognition

The Company recognizes revenue, net of allowances for returns and discounts and any taxes collected from the customer, when an identified performance obligation is satisfied by the transfer of control of promised products or services to the customer. The Company ships products to customers by internal fleet and third-party carriers. Transfer of control to the customer for products generally occurs at the point of destination (i.e., upon transfer of title and risk of loss of product). Transfer of control to the customer for services occurs when the customer has the right to direct the use of and obtain substantially all the remaining benefits of the asset that is created or enhanced from the service. The Company accounts for shipping and handling costs associated with outbound freight after the control or a product has transferred to a customer as a fulfillment cost. Such costs are included in Selling, general and administrative expenses.

Disaggregation of Revenue

The Company elected to disaggregate the revenue of Facilities Maintenance by its demand types: MRO and Property Improvement, and Construction & Industrial by its end markets: Non-Residential Construction, Residential Construction, and Other. The Company believes this disaggregation appropriately meets the objective to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

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The table below represents disaggregated revenue for Facilities Maintenance and Construction & Industrial with Inter-segment eliminations (amounts in millions):

	Three Months Ended	
	April 29, 2018	April 30, 2017
Facilities Maintenance		
Maintenance, Repair, and Operations	$ 636	$ 606
Property Improvement	87	76
Total Facilities Maintenance Net Sales	**723**	**682**
Construction & Industrial		
Non-Residential Construction	449	348
Residential Construction	176	153
Other	41	35
Total Construction & Industrial Net Sales	**666**	**536**
Inter-segment Eliminations	—	(2)
Total HD Supply Net Sales	**$ 1,389**	**$ 1,216**

Contract Balances

Because the timing of satisfaction of identified performance obligations may differ from the timing of invoicing to customers for certain installation contracts, this may result in the recognition of a contract asset or liability. The Company records a contract asset when it recognizes revenue prior to invoicing, or a contract liability when revenue is recognized subsequent to invoicing. Contract assets are reclassified as accounts receivable upon invoicing and contract liabilities are relieved upon recognition of revenue. As of April 29, 2018, the Company's contract assets and contract liabilities, which are included in Other Current Assets and Other Current Liabilities, respectively, within the Consolidated Balance Sheets, are not material.

Payment terms and conditions vary by contract type, although terms generally include requirement of payment within 45 days. As such, in instances where the timing of revenue recognition differs from the timing of invoicing, the Company has concluded that its contracts with customers does not include a significant financing component because customer payments for goods and services are received in less than one year. All remaining performance obligations as of April 29, 2018 are not material.

NOTE 14—RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

Stock Compensation — In May 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-09, "Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09"). This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for annual and interim periods beginning after December 15, 2017. The amendments in this update should be applied prospectively to an award modified on or after the adoption date. That Company adopted this guidance on January 29, 2018 (the first day of fiscal 2018) with no material impact to the Company's financial position, results of operations or cash flows.

Statement of Cash Flows — In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"). The new guidance is intended to reduce diversity in practice by adding or clarifying guidance on classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 is effective for annual and interim periods beginning after December 15, 2017. The amendments in this update should be applied retrospectively to all periods presented. The Company adopted this guidance on January 29, 2018 (the first day of fiscal 2018) with no material impact on the Company's financial position, results of operations or cash flows. On a prospective basis, ASU 2016-18 will only impact the Company to the extent it has restricted cash.

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Income Taxes — In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-entity Transfers of Assets Other than Inventory" ("ASU 2016-16"). The new guidance is intended to improve the accounting for intra-entity transfers of assets other than inventory by requiring recognition of income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs. ASU 2016-16 is effective for annual and interim periods beginning after December 15, 2017. The amendments in this update should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company adopted this guidance on January 29, 2018 (the first day of fiscal 2018) with no adjustment to retained earnings.

Statement of Cash Flows — In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Clarification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). The new guidance is intended to reduce diversity in practice related to certain cash receipts and payments in the statement of cash flows by adding or clarifying guidance on eight specific cash flow issues. ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2017. The amendments in this update should be applied retrospectively to all periods presented, unless deemed impracticable, in which case, prospective application is permitted. The Company adopted this guidance on January 29, 2018 (the first day of fiscal 2018) with no revision to prior periods.

Revenue recognition — In May 2014, the FASB issued ASU No. 2014-09, "Revenue from contracts with customers" ("ASU 2014-09"), amended by ASU 2016-10, "Revenue from contracts with customers (Topic 606): Identifying Performance Obligations and Licensing," ASU 2016-12, "Revenue from contracts with customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," ASU 2017-13, "Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842)," and ASU 2017-14, "Income Statement-Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606)." The amended guidance outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." The update requires significant additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. Entities have the option of using either a full retrospective or modified approach to adopt the guidance. In July 2015, the FASB provided a one-year delay in the effective date of ASU 2014-09, to be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and a permission to early adopt for annual and interim periods beginning after December 15, 2016.

The Company adopted ASU 2014-09, as well as other clarifications and technical guidance issued by the FASB related to this new revenue standard on January 29, 2018 (the first day of fiscal 2018) using the modified retrospective method. See "Note 13, Revenue" for the Company's revenue accounting policies and disclosures.

Recently Issued Accounting Pronouncements Not Yet Adopted

Goodwill — In January 2017, the FASB issued ASU No. 2017-04, "Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). The new guidance eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The ASU is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The amendments in this update should be applied on a prospective basis. The adoption of ASU 2017-04 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Leases — In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), amended by ASU 2017-13, "Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842)," and ASU 2018-01, "Leases (Topic 842)-Land Easement Practical Expedient for

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Transition to Topic 842." The amended guidance requires companies to recognize all leases as assets and liabilities for the rights and obligations created by leased assets on the consolidated balance sheet. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. It is to be adopted using a modified retrospective approach. The Company is currently evaluating the impact of adopting ASU 2016-02.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

This Management's Discussion and Analysis of Financial Condition and Results of Operations is combined for two registrants: HD Supply Holdings, Inc. and HD Supply, Inc. Unless the context indicates otherwise, any reference in this discussion and analysis to "Holdings" refers to HD Supply Holdings, Inc., any reference to "HDS" refers to HD Supply, Inc., the indirect wholly-owned subsidiary of Holdings, and any references to "HD Supply," the "Company," "we," "us" and "our" refer to Holdings together with its direct and indirect subsidiaries, including HDS.

HD Supply is one of the largest industrial distributors in North America. We believe we have leading positions in the two distinct market sectors in which we specialize: Maintenance, Repair & Operations ("MRO") and Specialty Construction. Through approximately 270 branches and 44 distribution centers, in the U.S. and Canada, we serve these markets with an integrated go-to-market strategy. We have approximately 11,000 associates delivering localized, customer-tailored products, services and expertise. We serve approximately 500,000 customers, which include contractors, maintenance professionals, industrial businesses, and government entities. Our broad range of end-to-end product lines and services include approximately 650,000 stock-keeping units ("SKUs") of quality, name-brand and proprietary-brand products as well as value-add services supporting the entire lifecycle of a project from construction to maintenance, repair and operations.

Description of segments

We operate our Company through two reportable segments: Facilities Maintenance and Construction & Industrial.

Facilities Maintenance. Facilities Maintenance distributes MRO products, provides value-add services and fabricates custom products. The markets that Facilities Maintenance serves include multifamily, hospitality, healthcare and institutional facilities. Products include electrical and lighting items, plumbing, HVAC products, appliances, janitorial supplies, hardware, kitchen and bath cabinets, window coverings, textiles and guest amenities, healthcare maintenance and water and wastewater treatment products.

Construction & Industrial. Construction & Industrial distributes specialized hardware, tools and engineered materials to non-residential and residential contractors. Products include tilt-up brace systems, forming and shoring systems, concrete chemicals, hand and power tools, cutting tools, rebar, ladders, safety and fall arrest equipment, specialty screws and fasteners, sealants and adhesives, drainage pipe, geo-synthetics, erosion and sediment control equipment and other engineered materials used broadly across all types of non-residential and residential construction. Construction & Industrial also includes Home Improvement Solutions, which offers light remodeling and construction supplies, kitchen and bath cabinets, windows, plumbing materials, electrical equipment and other products, primarily to small remodeling contractors and trade professionals.

In addition to the reportable segments, the Company's consolidated financial results include Corporate. Corporate incurs costs related to the Company's centralized support functions, which are comprised of finance, information technology, human resources, legal, supply chain and other support services. All Corporate overhead costs are allocated to the reportable segments. Interest expense, interest income, other non-operating income and expenses, and provision for income taxes are not allocated to the Company's reportable segments. Eliminations include the adjustments necessary to eliminate intercompany transactions.

Acquisition

We enter into strategic acquisitions to expand into new markets, new platforms, and new geographies in an effort to better service existing customers and attract new ones. In accordance with the acquisition method of accounting under Accounting Standards Codification ("ASC") 805, Business Combinations, the results of the acquisitions we completed are reflected in our consolidated financial statements from the date of acquisition forward.

On March 5, 2018, we acquired A.H. Harris Construction Supplies ("A.H. Harris") for total purchase price of approximately $362 million in cash. A.H. Harris is a leading specialty construction distributor serving the northeast and mid-Atlantic regions and is included within Construction & Industrial. This acquisition expands Construction & Industrial's market presence in the northeastern United States. For additional detail related to the acquisition of A.H. Harris, see "Note 2, Acquisition," in the Notes to the Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

During first quarter 2018, we incurred approximately $2 million of costs related to the acquisition and integration of A.H. Harris. We expect to incur a total of approximately $4 million of acquisition and integration costs related to this acquisition during fiscal 2018.

Discontinued operations

On August 1, 2017, the Company completed the sale of its Waterworks business. The presentation of discontinued operations includes revenues and expenses of the discontinued operations, net of tax, as one line item on the Consolidated Statements of Operations and Comprehensive Income (Loss). Prior periods presented have been revised to reflect this presentation. For additional detail related to the sale of the Waterworks business and the results of operations of discontinued operations, see "Note 3, Discontinued Operations," in the Notes to the Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

Seasonality

In a typical year, our operating results are impacted by seasonality. Historically, sales of our products have been higher in the second and third quarters of each fiscal year due to favorable weather and longer daylight conditions during these periods. Seasonal variations in operating results may also be significantly impacted by inclement weather conditions, such as cold or wet weather, which can delay construction projects.

Fiscal Year

HD Supply's fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31. The fiscal year ending February 3, 2019 ("fiscal 2018") includes 53 weeks. The fiscal year ending January 28, 2018 ("fiscal 2017") includes 52 weeks. The three months ended April 29, 2018 ("first quarter 2018") and April 30, 2017 ("first quarter 2017") both include 13 weeks.

Key business metrics

Net sales

We earn our Net sales primarily from the sale of construction, maintenance, repair and operations, and renovation and improvement-related products and our provision of related services to approximately 500,000 customers, including contractors, government entities, maintenance professionals, home builders and industrial businesses. We recognize sales, net of sales tax and allowances for returns and discounts, when an identified performance obligation is satisfied by transfer of the promised goods or services to the customer. Net sales in certain business units fluctuate with the price of commodities as we seek to minimize the effects of changing commodities prices by passing such increases in the prices of certain commodity-based products to our customers.

We ship products to customers by internal fleet and by third-party carriers. Net sales are recognized from product sales when control of the products and services are passed to the customer, which generally occurs at the point of destination.

We include shipping and handling fees billed to customers in Net sales. Shipping and handling costs associated with inbound freight are capitalized to inventories and relieved through Cost of sales as inventories are sold. We account for shipping and handling costs associated with outbound freight after control of a product has transferred to a customer as a fulfillment cost. Such costs are included in Selling, general and administrative expenses.

Gross profit

Gross profit primarily represents the difference between the product cost from our suppliers (net of earned rebates and discounts), including the cost of inbound freight and the sale price to our customers. The cost of outbound freight, purchasing, receiving and warehousing are included in Selling, general and administrative expenses within operating expenses. Our Gross profit may not be comparable to those of other companies, as other companies may include all of the costs related to their distribution networks in Cost of sales.

Operating expenses

Operating expenses are primarily comprised of Selling, general and administrative costs, which include payroll expenses (salaries, wages, employee benefits, payroll taxes and bonuses), outbound freight, rent, insurance, utilities, repair and maintenance and professional fees. In addition, operating expenses include depreciation and amortization and restructuring charges.

Adjusted EBITDA and Adjusted net income

Adjusted EBITDA and Adjusted net income are not recognized terms under generally accepted accounting principles in the United States of America ("GAAP") and do not purport to be alternatives to Net income as a measure of operating performance. We present Adjusted EBITDA and Adjusted net income because each is a primary measure used by management to evaluate operating performance. In addition, we present Adjusted net income to measure our overall profitability as we believe it is an important measure of our performance. We believe the presentation of Adjusted EBITDA and Adjusted net income enhances our investors' overall understanding of the financial performance of our business. We believe Adjusted EBITDA and Adjusted net income are helpful in highlighting operating trends, because each excludes the results of decisions that are outside the control of operating management and that can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate, age and book depreciation of facilities and capital investments.

Adjusted EBITDA is based on ''Consolidated EBITDA,'' a measure which is defined in HDS's Senior Credit Facilities and used in calculating financial ratios in several material debt covenants. Borrowings under these facilities are a key source of liquidity and our ability to borrow under these facilities depends upon, among other things, our compliance with such financial ratio covenants. In particular, both facilities contain restrictive covenants that can restrict our activities if we do not maintain financial ratios calculated based on Consolidated EBITDA. Our Senior ABL Facility requires us to maintain a minimum fixed charge coverage ratio of 1:1 if our specified excess availability (including an amount by which our borrowing base exceeds the outstanding amounts) under the Senior ABL Facility falls below the greater of $100 million and 10% of the lesser of (A) the Borrowing Base and (B) the Total Facility Commitment. Adjusted EBITDA is defined as Net income (loss) less Income from discontinued operations, net of tax, plus (i) Interest expense and Interest income, net, (ii) Provision for income taxes, (iii) Depreciation and amortization and further adjusted to exclude loss on extinguishment of debt, non-cash items and certain other adjustments to Consolidated Net Income, including costs associated with capital structure enhancements, permitted in calculating Consolidated EBITDA under our Senior Credit Facilities. We believe that presenting Adjusted EBITDA is appropriate to provide additional information to investors about how the covenants in those agreements operate and about certain non-cash and other items. The Term Loan Facility and Senior ABL Facility permit us to make certain additional adjustments to Consolidated Net Income in calculating Consolidated EBITDA, such as projected net cost savings, which are not reflected in the Adjusted EBITDA data presented in this quarterly report on Form 10-Q. We may in the future reflect such permitted adjustments in our calculations of Adjusted EBITDA. These covenants are important to the Company as failure to comply with certain covenants would result in a default under our Senior Credit Facilities. The material covenants in our Senior Credit Facilities are discussed in our annual report on Form 10-K for the fiscal year ended January 28, 2018.

Adjusted net income is defined as Net income less Income from discontinued operations, net of tax, further adjusted for loss on extinguishment of debt and certain non-cash, non-recurring, non-operational, or unusual items, net of tax.

We believe that Adjusted EBITDA and Adjusted net income are frequently used by securities analysts, investors and other interested parties in their evaluation of companies, many of which present an Adjusted EBITDA or Adjusted net income measure when reporting their results. We compensate for the limitations of using non-GAAP financial measures by using them to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Because not all companies use identical calculations, our presentation of Adjusted EBITDA and Adjusted net income may not be comparable to other similarly titled measures of other companies.

Adjusted EBITDA and Adjusted net income have limitations as analytical tools and should not be considered in isolation or as substitutes for analyzing our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA and Adjusted net income do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect our interest expense, or the requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect our income tax expenses or the cash requirements to pay our taxes;
- Adjusted EBITDA and Adjusted net income do not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments; and
- although depreciation and amortization charges are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements.

The following table presents a reconciliation of Net income and Income from continuing operations, the most directly comparable financial measures under GAAP, to Adjusted EBITDA for the periods presented (amounts in millions):

	Three Months Ended	
	April 29, 2018	**April 30, 2017**
Net income	**$ 89**	$ 85
Less income from discontinued operations, net of tax	—	27
Income from continuing operations	**89**	58
Interest expense, net	**33**	49
Provision for income taxes	**29**	19
Depreciation and amortization (1)	**24**	22
Loss on extinguishment of debt (2)	—	3
Restructuring charges (3)	**7**	—
Stock-based compensation	**6**	6
Acquisition and integration costs (4)	**2**	—
Adjusted EBITDA	**$ 190**	$ 157

(1) *Depreciation and amortization includes amounts recorded within Cost of sales in the Consolidated Statements of Operations.*

(2) *Represents the loss on extinguishment of debt including the write-off of unamortized deferred financing costs, original issue discount, and other assets or liabilities associated with such debt.*

(3) *Represents the costs related to exiting the Company's previous corporate headquarters and the costs incurred for strategic alignment of our workforce. These costs include severance, relocation costs and other related costs. For additional information, see "Note 9, Restructuring Activities," in the Notes to the Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.*

(4) *Represents the costs incurred in the acquisition and integration of A.H. Harris Construction Supplies.*

The following table presents a reconciliation of Net income and Income from continuing operations, the most directly comparable financial measures under GAAP, to Adjusted net income for the periods presented (amounts in millions):

	Three Months Ended	
	April 29, 2018	April 30, 2017
Net income	**$ 89**	$ 85
Less income from discontinued operations, net of tax	—	27
Income from continuing operations	**89**	58
Plus: Provision for income taxes	**29**	19
Less: Cash income taxes	**(2)**	(3)
Plus: Amortization of acquisition-related intangible assets (other than software)	**5**	3
Plus: Loss on extinguishment of debt (1)	—	3
Plus: Restructuring charges (2)	**7**	—
Plus: Acquisition and integration costs (3)	**2**	—
Adjusted Net Income	**$ 130**	$ 80

(1) *Represents the loss on extinguishment of debt including the write-off of unamortized deferred financing costs, original issue discount, and other assets or liabilities associated with such debt.*

(2) *Represents the costs related to exiting the Company's previous corporate headquarters and the costs incurred for strategic alignment of our workforce. These costs include severance, relocation costs and other related costs. For additional information, see "Note 9, Restructuring Activities," in the Notes to the Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.*

(3) *Represents the costs incurred in the acquisition and integration of A.H. Harris Construction Supplies.*

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Consolidated results of operations

Dollars in millions

	Three Months Ended		Percentage	% of Net Sales Three Months Ended		Basis Point
	April 29, 2018	April 30, 2017	Increase (Decrease)	April 29, 2018	April 30, 2017	Increase (Decrease)
Net sales	**$ 1,389**	$ 1,216	14.2%	**100.0%**	100.0%	—
Gross Profit	**552**	484	14.0	**39.7**	39.8	(10)
Operating expenses:						
Selling, general and administrative	**372**	334	11.4	**26.8**	27.5	(70)
Depreciation and amortization	**22**	21	4.8	**1.5**	1.7	(20)
Restructuring Charges	**7**	—	*	**0.5**	—	50
Total operating expenses	**401**	355	13.0	**28.8**	29.2	(40)
Operating Income	**151**	129	17.1	**10.9**	10.6	30
Interest expense	**34**	49	(30.6)	**2.4**	4.0	(160)
Interest (income)	**(1)**	—	*	**(0.1)**	—	(10)
Loss on extinguishment of debt	**—**	3	*	**—**	0.2	(20)
Income from Continuing Operations Before Provision for Income Taxes	**118**	77	53.2	**8.6**	6.4	220
Provision for income taxes	**29**	19	52.6	**2.2**	1.6	60
Income from Continuing Operations	**89**	58	53.4	**6.4**	4.8	160
Income from discontinued operations, net of tax	**—**	27	*	**—**	2.2	(220)
Net Income	**$ 89**	$ 85	4.7	**6.4**	7.0	(60)
Non-GAAP financial data:						
Adjusted EBITDA	**$ 190**	$ 157	21.0	**13.7**	12.9	80
Adjusted net income	**$ 130**	$ 80	62.5	**9.4**	6.6	280

* *Not meaningful*

Highlights

Net sales in first quarter 2018 increased $173 million, or 14.2%, as compared to first quarter 2017. Operating income in first quarter 2018 increased $22 million, or 17.1%, as compared to first quarter 2017. Net income in first quarter 2018 increased $4 million, to $89 million, compared to first quarter 2017. Adjusted EBITDA in first quarter 2018 increased $33 million, or 21.0%, as compared to first quarter 2017. Adjusted net income in first quarter 2018 increased $50 million, or 62.5%, as compared to first quarter 2017 due primarily to growth in operations, and, to a lesser extent, a decline in interest expense as a result of lower outstanding debt balances. As of April 29, 2018, our total liquidity was $880 million. See "Liquidity and Capital Resources — External Financing" for further information.

As a result of the sale of the Waterworks business in fiscal 2017, management evaluated the Company's talent alignment and functional support strategies. Consequently, during the second half of fiscal 2017, management initiated a restructuring plan that included reducing workforce personnel and realigning talent. In addition, the Company relocated its corporate headquarters. Management expects to incur $13 million to $15 million under this plan, and expects a payback of the employee-related costs via a reduction in personnel costs over the next one to two years.

During the three months ended April 29, 2018, our activities under this restructuring plan resulted in restructuring charges of $7 million, primarily comprised of charges related to exiting our previous corporate headquarters. We expect to incur up to an additional $2 million of restructuring charges in fiscal 2018 primarily for severance and other employee related costs. For additional information, see "Note 9, Restructuring Activities," in the Notes to the Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

Net sales

Net sales in first quarter 2018 increased $173 million, or 14.2%, compared to first quarter 2017.

Both of our reportable segments delivered an increase in Net sales in first quarter 2018 as compared to first quarter 2017. The Net sales increases were primarily due to increases from market volume and growth initiatives at each of our businesses and the acquisition of A.H. Harris. Growth initiatives contributed approximately $71 million in first quarter 2018. Organic sales growth was $120 million, or 9.9%, for first quarter 2018 as compared to first quarter 2017.

Gross profit

Gross profit increased $68 million, or 14.0%, during first quarter 2018 as compared to first quarter 2017.

Both of our reportable segments delivered an increase in Gross profit in first quarter 2018 as compared to first quarter 2017 primarily due to sales growth from increased market volume and initiatives.

Gross profit as a percentage of Net sales ("gross margin") decreased approximately 10 basis points to 39.7% in first quarter 2018 as compared to 39.8% in first quarter 2017. The decline in gross margin was primarily driven by the acquisition of A.H. Harris. Excluding the acquisition of A.H. Harris, gross margin improved approximately 20 basis points.

Operating expenses

Operating expenses increased $46 million, or 13.0%, during first quarter 2018 as compared to first quarter 2017.

Selling, general and administrative expenses increased $38 million, or 11.4%, to $372 million during first quarter 2018 as compared to first quarter 2017. The increase was primarily a result of increases in variable expenses due to higher sales volume and increased investments in growth initiatives, primarily additional personnel. Restructuring charges increased $7 million in first quarter 2018 as compared to first quarter 2017 as the Company relocated its corporate headquarters and continued restructuring activities under the restructuring plan initiated in fiscal 2017.

Operating expenses as a percentage of Net sales decreased approximately 40 basis points to 28.8%, in first quarter 2018 as compared to first quarter 2017. Selling, general and administrative expenses as a percentage of Net sales decreased approximately 70 basis points to 26.8% in first quarter 2018 as compared to first quarter 2017. The decrease was primarily a result of the leverage of fixed costs through sales volume increase, partially offset by increased investments in growth initiatives.

Operating income

Operating income increased $22 million, or 17.1%, to $151 million during first quarter 2018 as compared to first quarter 2017, primarily due to higher sales volume, partially offset by the increase in operating expenses.

Operating income as a percentage of Net sales increased approximately 30 basis points to 10.9% during first quarter 2018 as compared to first quarter 2017. The increase was primarily due to the decrease in Selling, general and administrative expenses as a percentage of Net sales offset by the increase in restructuring costs and the decline in gross margins.

Interest expense

Interest expense decreased $15 million, or 30.6%, during first quarter 2018 as compared to first quarter 2017. The decrease was due to a lower average outstanding balance as a result of using proceeds from the sale of businesses to reduce indebtedness, partially offset by an increase in the average effective interest rate primarily due to an increase in non-cash amortization of deferred financing costs.

Provision for income taxes

The provision for income taxes during the period is calculated by applying an estimated annual tax rate for the full fiscal year to pre-tax income for the reported period plus or minus unusual or infrequent discrete items occurring within the period. The Company's income tax provision recorded in interim periods can move from an income tax provision to income tax benefit (and vice versa) in situations in which the Company is experiencing changes between interim pre-tax income to pre-tax loss (and vice versa). The provision for income taxes from continuing operations in first quarter 2018 was $29 million compared to $19 million in first quarter 2017.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) was signed into law making significant changes to the Internal Revenue Code. The Tax Act significantly lowered the Company’s federal statutory rate from 35% to 21%.

The effective rate for continuing operations for first quarter 2018 and first quarter 2017 was 24.6% and 24.7%, respectively. The effective rate in first quarter 2017 was meaningfully impacted by the exercise and vesting of stock-based awards, which lowered the effective rate by approximately 1,450 basis points.

We regularly assess the realization of our net deferred tax assets and the need for any valuation allowance. This assessment requires management to make judgments about the benefits that could be realized from future taxable income, as well as other positive and negative factors influencing the realization of deferred tax assets. As of April 29, 2018 and January 28, 2018, the Company’s valuation allowance on its U.S. deferred tax assets was approximately $7 million.

Adjusted EBITDA

Adjusted EBITDA increased $33 million, or 21.0%, in first quarter 2018 as compared to first quarter 2017. Both of our reportable segments generated an increase in Adjusted EBITDA in first quarter 2018 as compared to first quarter 2017.

The increase in Adjusted EBITDA was primarily due to the increase in sales volume, partially offset by the increase in Operating expenses. Adjusted EBITDA as a percentage of Net sales increase approximately 80 basis points to 13.7% in first quarter 2018 as compared to first quarter 2017, primarily due to the leverage of fixed costs through sales volume increases, partially offset by increased investments in growth initiatives and decline in gross margin.

Adjusted net income

Adjusted net income increased $50 million, or 62.5%, in first quarter 2018 as compared to first quarter 2017. The increase in Adjusted net income was attributable to growth in operations and lower interest expense.

Results of operations by reportable segment

Facilities Maintenance

	Three Months Ended		
Dollars in millions	**April 29, 2018**	**April 30, 2017**	**Increase (Decrease)**
Net sales	**$ 723**	**$ 682**	6.0%
Operating income	**$ 104**	**$ 93**	11.8%
% of Net sales	*14.4%*	*13.6%*	*80bps*
Depreciation and amortization	11	11	*
Other	8	4	*
Adjusted EBITDA	**$ 123**	**$ 108**	13.9%
% of Net sales	*17.0%*	*15.8%*	*120bps*

* *Not meaningful*

Net Sales

Net sales increased $41 million, or 6.0%, in first quarter 2018 as compared to first quarter 2017.

The increase in Net sales was primarily due to growth in the multifamily and hospitality industries and growth initiatives. These growth initiatives consist of investments in personnel, products, and technology aligned with our selling channels, such as our sales force, e-commerce site and mobile application, and our enabling functions, such as supply chain and data analytics.

Adjusted EBITDA

Adjusted EBITDA increased $15 million, or 13.9%, in first quarter 2018 as compared to first quarter 2017.

The increase in Adjusted EBITDA was primarily due to increased sales volume, partially offset by increased Selling, general and administrative expenses due to growth initiatives.

Adjusted EBITDA as a percentage of Net sales increased approximately 120 basis points in first quarter 2018 as compared to first quarter 2017. The increase was primarily driven by improvements in gross margins.

Construction & Industrial

	Three Months Ended		
Dollars in millions	April 29, 2018	April 30, 2017	Increase (Decrease)
Net sales	**$ 666**	**$ 536**	24.3%
Operating income	**$ 47**	**$ 36**	30.6%
% of Net sales	*7.1%*	*6.7%*	*40bps*
Depreciation and amortization	13	11	18.2%
Other	7	2	*
Adjusted EBITDA	**$ 67**	**$ 49**	36.7%
% of Net sales	*10.1%*	*9.1%*	*100bps*

* *Not meaningful*

Net Sales

Net sales increased $130 million, or 24.3%, in first quarter 2018 as compared to first quarter 2017.

Growth initiatives contributed to the increase in Net sales in first quarter 2018 driven by our Managed Sales Approach (''MSA''), new locations, and direct marketing initiatives. MSA is a structured approach to drive revenue at a regional level through analysis, tools and sales management. In addition, Net sales was positively impacted by end-market improvement in both non-residential and residential housing markets. On an organic basis, excluding the sales of recently acquired A.H. Harris, sales growth was $77 million, or 14.4%, for first quarter 2018 as compared to first 2017.

Adjusted EBITDA

Adjusted EBITDA increased $18 million, or 36.7%, in first quarter 2018 as compared to first quarter 2017.

The increase in Adjusted EBITDA in first quarter 2018 as compared to first quarter 2017 was primarily driven by growth initiatives and market volume. This increase was partially offset by lower rebar gross margins and increased Selling, general and administrative expenses related to variable expenses and the hiring of additional associates to support the expanding business and drive future growth.

Adjusted EBITDA as a percentage of Net sales increased approximately 100 basis points in first quarter 2018 as compared to first quarter 2017. The increase was driven by a decrease in Selling, general and administrative expenses as a percentage of Net sales due to the leverage of fixed costs through sales volume increases, partially offset by gross margin pressure from product mix and declines in rebar gross margins. Rebar margins are declining due to an increase in steel costs impacted by tariffs and duties. We have been unable to pass along all of the cost increases to our customers due to the competitive environment.

Liquidity and capital resources

Sources and uses of cash

Our sources of funds, primarily from operations, cash on-hand, and, to the extent necessary, from readily available external financing arrangements, are sufficient to meet all current obligations on a timely basis. We believe that these sources of funds will be sufficient to meet the operating needs of our business for at least the next twelve months.

During first quarter 2018, the Company's use of cash was primarily driven by the payment for businesses acquired, in addition to the payment of interest on debt, capital expenditures and purchases of treasury shares.

As of April 29, 2018, our combined liquidity of approximately $880 million was comprised of $150 million in cash and cash equivalents and $730 million of additional available borrowings (excluding $174 million of borrowings on available cash balances) under our Senior ABL Facility, based on qualifying inventory and receivables.

Information about the Company's cash flows, by category, is presented in the Consolidated Statements of Cash Flows and is summarized as follows:

Net cash provided by (used for):

Amounts in millions	Three Months Ended April 29, 2018	Three Months Ended April 30, 2017	Increase (Decrease)
Operating activities	**$ 50**	$ 83	$ (33)
Investing activities	**(381)**	(22)	(359)
Financing activities	**(77)**	(66)	(11)

Working capital

Working capital, excluding cash and cash equivalents, was $773 million as of April 29, 2018, decreasing $220 million as compared to $993 million as of April 30, 2017. Working capital, excluding the impact of discontinued operations and cash and cash equivalents increased $119 million. The increase was primarily driven by business growth and the acquired capital of A.H. Harris, resulting in increases in Receivables and Inventory, partially offset by increases in Accounts Payable, as well as an increase in Other current liabilities for the corporate headquarters financing liability.

Operating activities

During first quarter 2018, cash provided by operating activities was $50 million compared to $83 million in first quarter 2017. Cash interest paid in first quarter 2018 was $42 million, compared to $44 million in first quarter 2017. Cash flows from operating activities during first quarter 2017 included a payment of $4 million of original issue discount related to the extinguishment of a portion of the Term Loans. Cash flows from operating activities for discontinued operations were zero and $11 million during first quarter 2018 and first quarter 2017, respectively. Excluding the cash interest payments in both periods and original issue discounts paid, cash flows from operating activities for continuing operations decreased approximately $28 million in first quarter 2018 as compared to first quarter 2017. The decrease in operating cash flows excluding interest, original issue discount, and discontinued operations is attributable to investments in working capital for business growth, partially offset by growth in earnings of continuing operations.

Investing activities

During first quarter 2018, cash used by investing activities was $381 million, comprised of $362 million for the acquisition of A.H. Harris and $19 million of capital expenditures. During first quarter 2017, cash used by investing activities was $22 million, comprised of $24 million of capital expenditures, partially offset by $2 million of cash received from the sale of property and equipment.

Financing activities

During first quarter 2018, cash used in financing activities was $77 million, primarily due to purchases of treasury shares of $64 million, tax withholdings on stock-based awards of $6 million, and net debt repayments of $6 million, partially offset by proceeds from employee stock option exercises of $2 million.

During first quarter 2017, cash used in financing activities was $66 million, primarily due to net debt repayments of $80 million, payments for debt issuance costs of $5 million and purchases of treasury shares of $9 million, offset by proceeds from employee stock option exercises of $25 million.

External financing

As of April 29, 2018, we had an aggregate principal amount of $2,098 million of outstanding indebtedness, net of unamortized discounts and unamortized deferred financing costs of $6 million and $24 million, respectively, and $904 million of Excess Availability (as defined in the agreement) under our Senior ABL Facility (after giving effect to the borrowing base limitations and approximately $27 million in letters of credit issued and including $174 million of borrowings available on qualifying cash balances). From time to time, depending on market conditions and other factors, the Company may seek to repay, redeem, repurchase or otherwise acquire or refinance all or a portion of our indebtedness. We may make such repurchases in privately negotiated transactions or otherwise.

For additional information, see “Note 4, Debt,” in the Notes to the Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

Rating agency actions

In April 2018, Standard & Poor’s Global Ratings (“S&P”) upgraded HDS’s Corporate Family Rating from BB Stable to BB+ Stable, the Term B-3 Loans and Term B-4 Loans from BB+ to BBB- and the April 2016 Senior Unsecured Notes from B+ to BB-. Additionally, S&P affirmed its rating of the Senior ABL Facility as BBB-. S&P cited HDS’s improved operating performance and credit metrics as rationale for the upgrades. S&P affirmed its ratings outlook as stable.

Critical accounting policies

Our condensed consolidated financial statements have been prepared in accordance with GAAP. Preparation of these statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these consolidated financial statements. The Company’s critical accounting policies have not changed from those reported in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the fiscal year ended January 28, 2018, except for those related to the adoption of ASC 606, Revenue from Contracts with Customers. See “Note 13, Revenue” in the Notes to the Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q for further information.

Recent accounting pronouncements

See “Note 14, Recent Accounting Pronouncements” in the Notes to the Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk associated with changes in interest rates, foreign currency exchange rate fluctuations and certain commodity prices. To reduce these risks, we selectively use financial instruments and other proactive management techniques. We do not use financial instruments for trading purposes or speculation. There have been no material changes in our market risk exposures as compared to those discussed in our annual report on Form 10-K for the fiscal year ended January 28, 2018.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

HD Supply Holdings, Inc.

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer of HD Supply Holdings, Inc., we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the HD Supply Holdings, Inc. disclosure controls and procedures were effective as of April 29, 2018 (the end of the period covered by this report).

HD Supply, Inc.

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer of HD Supply, Inc., we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the HD Supply, Inc. disclosure controls and procedures were effective as of April 29, 2018 (the end of the period covered by this report).

(b) Changes in internal control

There were no changes in Holdings' or HDS's internal control over financial reporting, as defined in the Exchange Act Rules 13a-15(f) or 15d-15(f), during the first quarter of fiscal 2018 that have materially affected, or are reasonably likely to materially affect, Holdings' or HDS's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

On July 10, 2017 and August 8, 2017, shareholders filed putative class action complaints in the U.S. District Court for the Northern District of Georgia, alleging that HD Supply and certain senior members of its management (collectively, the "defendants") made certain false or misleading public statements in violation of the federal securities laws between November 9, 2016 and June 5, 2017, inclusive (the "original securities complaints"). Subsequently, the two securities cases were consolidated, and, on November 16, 2017, the lead plaintiffs appointed by the Court filed a Consolidated Amended Class Action Complaint (the "Amended Complaint") against the defendants on behalf of all persons other than defendants who purchased or otherwise acquired the Company's common stock between November 9, 2016 and June 5, 2017, inclusive. The Amended Complaint alleges that defendants made certain false or misleading public statements, primarily relating to the Company's progress in addressing certain supply chain disruption issues encountered in the Company's Facilities Maintenance business unit. The Amended Complaint asserts claims against the defendants under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5, and seeks class certification under the Federal Rules of Civil Procedure, as well as unspecified monetary damages, pre-judgment and post-judgment interest, and attorneys' fees and other costs. Defendants moved to dismiss the Consolidated Amended Complaint in December 2017. That motion is pending.

On August 8, 2017, two shareholder derivative complaints were filed naming the Company as a "nominal defendant" and certain members of its senior management and board of directors (collectively, the "individual defendants") as defendants. The complaints generally allege that the individual defendants caused the Company to issue false and misleading statements concerning the Company's business, operations, and financial prospects, including misrepresentations regarding operating leverage and supply chain corrective actions. The complaints assert claims against the individual defendants under Section 14(a) of the Securities Exchange Act of 1934, and allege breaches of fiduciary duties, unjust enrichment, corporate waste, and insider selling. The complaints assert a claim to recover any damages sustained by the Company as a result of the individual defendants' allegedly wrongful actions, seek certain actions by the Company to modify its corporate governance and internal procedures, and seek to recover attorneys' fees and other costs. In October 2017, the Court consolidated the two derivative actions and granted the parties' joint scheduling order request. On December 5, 2017, the Court entered an order staying all activity in the case until a ruling is issued on the motion to dismiss filed in the consolidated securities litigation described above. The Company intends to defend these lawsuits vigorously. Given the stage of the complaints and the claims and issues presented in the above matters, the Company cannot reasonably estimate at this time the possible loss or range of loss, if any, that may arise from these unresolved lawsuits.

HD Supply is involved in various legal proceedings arising in the normal course of its business. The Company establishes reserves for litigation and similar matters when those matters present loss contingencies that it determines to be both probable and reasonably estimable in accordance with ASC 450, "Contingencies." In the opinion of management, based on current knowledge, all reasonably estimable and probable matters are believed to be adequately reserved for or covered by insurance and are not expected to have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows. For all other matters management believes the possibility of losses from such matters is not probable, the potential loss from such matters is not reasonably estimable, or such matters are of such kind or involve such amounts that would not have a material adverse effect on the financial position, results of operations or cash flows of the Company if disposed of unfavorably. For material matters that are reasonably possible and reasonably estimable, including matters that are probable and estimable but for which the amount that is reasonably possible is in excess of the amount that the Company has accrued for, management has estimated the aggregate range of potential loss as $0 to $10 million. If a material loss is probable or reasonably possible, and in either case estimable, the Company has considered it in the analysis and it is included in the discussion set forth above.

Item 1A. Risk Factors

We discuss in our filings with the SEC various risks that may materially affect our business. There have been no material changes to the risk factors disclosed in our annual report on Form 10-K, for the fiscal year ended January 28, 2018.

The materialization of any risks and uncertainties identified in forward-looking statements contained in this report together with those previously disclosed in our annual report on Form 10-K for the fiscal year ended January 28, 2018 and our and HDS's other filings with the SEC or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See "Forward-looking statements and information" at the beginning of this report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Purchases of Equity Securities

On August 25, 2017, Holdings' Board of Directors authorized the Company to enter into a share repurchase program for the repurchase of up to an aggregate amount of $500 million of Holdings' common stock in accordance with guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. Under this plan, Holdings has repurchased approximately 1.77 million shares for approximately $67 million during the three months ended April 29, 2018.

In fiscal 2014, Holdings' Board of Directors authorized a share repurchase program to be funded from cash proceeds received from exercises of employee stock options. This share repurchase program does not obligate Holdings to acquire any particular amount of common stock, and it may be terminated at any time at Holdings' discretion.

Under both plans, Holdings repurchased approximately 1.81 million shares of its common stock for approximately $68 million during the three months ended April 30, 2018.

Issuer Purchases of Equity Securities in each fiscal month of the first quarter of fiscal 2018 are set forth in the table below:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program		Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 29 - February 25	261,983	$	36.06	261,983	$	449,771,722
February 26 - March 25	310,427		37.01	310,427		438,472,383
March 26 - April 29	1,234,121		38.27	1,234,121		392,672,658
Total	1,806,531	$	37.73	1,806,531		

(1) *The total dollar value of shares that may yet be purchased increases by the amount of cash proceeds received from the exercise of employee stock options as they occur.*

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Item 6. Exhibits

The following exhibits are filed or furnished with this quarterly report.

Exhibit Number	Exhibit Description
3.1	Second Amended and Restated Certificate of Incorporation of HD Supply Holdings, Inc.(2)
3.2	Third Amended and Restated By-Laws of HD Supply Holdings, Inc.(2)
3.3	Certificate of Incorporation of HD Supply, Inc.(1)
3.4	Certificate of Amendment of Certificate of Incorporation of HD Supply, Inc.(3)
3.5	Amended and Restated By-Laws of HD Supply, Inc.(3)
31.1	Certification of Chairman of the Board, President and Chief Executive Officer of HD Supply Holdings, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Senior Vice President and Chief Financial Officer of HD Supply Holdings, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Chairman of the Board, President and Chief Executive Officer of HD Supply, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.4	Certification of Senior Vice President and Chief Financial Officer of HD Supply, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chairman of the Board, President and Chief Executive Officer of HD Supply Holdings, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Senior Vice President and Chief Financial Officer of HD Supply Holdings, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3	Certification of Chairman of the Board, President and Chief Executive Officer of HD Supply, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.4	Certification of Senior Vice President and Chief Financial Officer of HD Supply, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T.

(1) Previously filed in Amendment No.1 to Form S-4 of HD Supply, Inc. (File No. 333-159809) filed on July 10, 2009.

(2) Previously filed in Form S-8 of HD Supply Holdings, Inc. (File No. 333-189771) filed on July 2, 2013.

(3) Previously filed in Form 8-K of HD Supply, Inc. (File No. 333-159809) filed on July 9, 2013.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		HD SUPPLY HOLDINGS, INC. (Registrant)
June 4, 2018 (Date)	By:	/s/ Joseph J. DeAngelo Joseph J. DeAngelo Chairman of the Board, President and Chief Executive Officer
		/s/ Evan J. Levitt Evan J. Levitt Senior Vice President and Chief Financial Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HD SUPPLY, INC.
(Registrant)

June 4, 2018	By:	/s/ Joseph J. DeAngelo
(Date)		Joseph J. DeAngelo Chairman of the Board, President and Chief Executive Officer
		/s/ Evan J. Levitt
		Evan J. Levitt Senior Vice President and Chief Financial Officer

Exhibit 31.1

CERTIFICATION

I, Joseph J. DeAngelo, certify that:

1. I have reviewed this periodic report on Form 10-Q of HD Supply Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 4, 2018

/s/ Joseph J. DeAngelo
Joseph J. DeAngelo
Chairman of the Board, President and
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Evan J. Levitt, certify that:

1. I have reviewed this periodic report on Form 10-Q of HD Supply Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 4, 2018

/s/ Evan J. Levitt
Evan J. Levitt
Senior Vice President, Chief Financial Officer and Chief Administrative Officer

Exhibit 31.3

CERTIFICATION

I, Joseph J. DeAngelo, certify that:

1. I have reviewed this periodic report on Form 10-Q of HD Supply, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 4, 2018

/s/ Joseph J. DeAngelo
Joseph J. DeAngelo
Chairman of the Board, President and
Chief Executive Officer

Exhibit 31.4

CERTIFICATION

I, Evan J. Levitt, certify that:

1. I have reviewed this periodic report on Form 10-Q of HD Supply, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 4, 2018

/s/ Evan J. Levitt

Evan J. Levitt
Senior Vice President, Chief Financial Officer and Chief Administrative Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, the undersigned Chairman of the Board, President and Chief Executive Officer of HD Supply Holdings, Inc. (the Company), hereby certifies that the Company's Periodic report on Form 10-Q for the period ended April 29, 2018 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 4, 2018

/s/ Joseph J. DeAngelo
Joseph J. DeAngelo
Chairman of the Board, President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report.

Exhibit 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, the undersigned Senior Vice President and Chief Financial Officer of HD Supply Holdings, Inc. (the Company), hereby certifies that the Company's periodic report on Form 10-Q for the period ended April 29, 2018 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 4, 2018

/s/ Evan J. Levitt
Evan J. Levitt
Senior Vice President, Chief Financial Officer and Chief Administrative Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report.

Exhibit 32.3

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, the undersigned Chairman of the Board, President and Chief Executive Officer of HD Supply, Inc. (the Company), hereby certifies that the Company's periodic report on Form 10-Q for the period ended April 29, 2018 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 4, 2018

/s/ Joseph J. DeAngelo
Joseph J. DeAngelo
Chairman of the Board, President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report.

Exhibit 32.4

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, the undersigned Senior Vice President and Chief Financial Officer of HD Supply, Inc. (the Company), hereby certifies that the Company's periodic report on Form 10-Q for the period ended April 29, 2018 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 4, 2018

/s/ Evan J. Levitt
Evan J. Levitt
Senior Vice President, Chief Financial Officer and Chief Administrative Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report.