
LOWE'S
SCOREBOARD

Contents

HIGHLIGHTS

		Totals	Per Share
Sales	*To the Visitors*	$793,125,313	$60.91
Pre-Tax Earnings	*Half-Time Lead*	$ 45,864,603	$ 3.52
Taxes on Earnings	*To the Officials*	$ 22,140,770	$ 1.70
Net Earnings	*For the Owners*	$ 23,723,833	$ 1.82
Depreciation		$ 8,713,648	$ .67
Cash Flow		$ 32,437,481	$ 2.49
Cash Dividends		$ 5,208,850	$ .40
Number of Stores	*For the Future*	199	—

About the Cover

All Annual Reports serve as scoreboards, to advise shareholders of their company's financial performance for the year. We are reminded of George Allen's much publicized quote while Coach of the Washington Redskins—"The future is now!", because it seems similar to a cardinal yard marker of retailing, "Beat last year!" Although a casual glance at Lowe's results may not indicate it, we are confident that we did just that, and we believe that once you analyze the effect of the LIFO-FIFO rules change during this year's game, you'll appreciate Lowe's score this year.

Lowe's Fiscal 1978 Annual Report
Year Ended January 31, 1979

To Our Shareholders

Foreword: Fiscal 1978 has been an eventful year in the life of Lowe's. In our review of performance in the inside back cover of this report, we call it a "New Base Year." We believe that to be an apt description, because decisions have been reached, actions taken, and changes made that help provide a new base on which to build the future growth and progress of Lowe's.

In July, the Board elected four Directors to new positions; the two of us to the offices indicated below, and Mr. Petro Kulynych and Mr. John A. Walker were named Managing Directors. In the news release announcing the change, the Board commented, "We feel this is an evolutionary and positive step in the organization of Lowe's, one which can more efficiently utilize the experience of these executives in different areas simultaneously—to continue Lowe's present business, to strengthen its financial and operational base, to research and develop new areas for growth and profitability, to respond to new demands for Board responsibility, and most importantly, to train and develop new leaders for Lowe's for the 1980's."

The sports analogy theme for this Annual Report was selected to emphasize how quickly management has responded to the tasks of strengthening the operational base, and building new leaders for Lowe's.

Good teamwork is essential in every successful group endeavor. Most people, in pronouncing the word, stress the first syllable—"team." We agree with that emphasis, and have devoted an important section of this report to Lowe's new team which has been selected and shaped in 1978. Now it is time to emphasize the second syllable—"work." Lowe's people have always worked hard and will continue to do so. We shall also strive to work more purposefully and more productively to meet the challenges of the 1980's, which we see as including more inflation, more competition, and more demands for superior performance from Lowe's.

Feature Story: We invite your attention to the special feature story of this report—Lowe's Newest Store—A Preview of our Future, on pages 26 through 32.

Sales Results: Our $793,125,000 beat last year by 20% for an increase of $131,500,000. $74,130,000, or 56% of the increase, came from sales to retail customers, with the other $57,370,000 from increased sales to home builders and other professional customers. Pages 14 and 15 present a more detailed sales analysis by customer and by product.

Earnings: As shown on page 1, Lowe's net earnings after taxes were $23,723,822, or $1.82 per share. These results are not directly comparable with last year's $1.90, due to an important accounting change.

Accounting Change: Subsequent to a three month study project by Pete Kulynych as Managing Director, the Board voted unanimously to adopt the LIFO (last-in, first-out) method of accounting for all inventory for Fiscal 1978. The cost of inventories and cost of goods sold had been determined under the FIFO (first-in, first-out) method in previous years. The change was made because during inflationary periods, the LIFO method more closely matches current revenues with current costs. The effect of the change was to decrease net earnings and retained earnings for Fiscal 1978 by $4,138,111, or approximately 32 cents per share. If the FIFO method of inventory accounting had been maintained, Lowe's merchandise inventories would have been $8,465,857 higher as of January 31, 1979.

Taxes: Total tax liabilities declined both in dollars and in percentage this year compared to last. Of our Pre-Tax Earnings, total taxes took 49.1% in Fiscal 1977 and 48.2% in Fiscal 1978. As detailed in Note 7 to the Financial Statements, increased Investment Tax Credits were the principal reason. Also, Congress decreased the basic federal corporate tax rate from 48% to 46%, effective January 1, 1979. Consequently, this affected Lowe's for just one month during Fiscal 1978, but will apply for all of Fiscal 1979, and will obviously affect our earnings after taxes favorably, on a percentage basis.

Cash Flow: This is a phrase that can be defined in many ways, but the most often used definition is net earnings after taxes, plus the non-cash outlay expense of depreciation. It is shown in the Consolidated Statements of Changes in Financial Position on page 40, entitled "Funds from Operations," and Lowe's Cash Flow increased this year over last by more than a million dollars. Many analysts believe that Cash Flow is a significant measure in comparing trends of profitability over time. Therefore, we invite your attention to line 9 on the inside back cover. Lowe's Cash Flow has increased every year since 1960.

Cash Dividends: During this fiscal year, Lowe's paid cash dividends to shareholders totaling $5,208,850, up 33% from the $3,906,638 paid one year ago. The amount is 22% of our prior-year (1977) earnings, and management believes a 20% to 25% payout of prior-year earnings is an appropriate range under the present circumstances. We also feel strongly that the growth rate of dividends over time is far more important to the financial well being of Lowe's shareholders and the company itself, and is a superior criterion to "payout." Here again we invite you to review line 10 on the inside back cover for Lowe's performance in this measure.

Store Growth: We opened twenty new stores in ten different states this year and closed one, bringing our year-end total from 180 to 199. Regarding the closed store this December, and the one we closed last December, we shall continue to act with decisiveness to close or relocate stores with unsatisfactory performance.

The twenty new stores are located as follows: five in Arkansas; four in North Carolina; two in Kentucky; two in Tennessee; two in Ohio; and one each in Indiana, Illinois, Georgia, Louisiana, and Texas. Fifteen of these stores are new, built-for-Lowe's, standard stores. The other five are "takeovers"—existing buildings converted to Lowe's stores. As is our practice, all pre-opening and Grand Opening expenses have been charged against the 1978 Income Statement. The fourth quarter results had the greatest impact from this policy, since eleven of the twenty were opened during the fourth quarter.

Financial Comments: We are comfortable with Lowe's financial position. From the recession year of 1974, our sales have more than doubled—to 229% of the 1974 results. Even though cash dividend payments for the same period have more than quadrupled—to 474% of the 1974 payments; Shareholders' Equity has almost doubled—to 195% of the 1974 figures. Our Current Ratio has increased from 2.59 to 1.00, to 2.95 to 1.00 (2.00 to 1.00 is considered appropriate by many analysts). We do not plan, nor have we contemplated on a need basis, any equity financing, since Lowe's continues to generate Cash Flow internally.

Futures: In another important decision, Lowe's Board has voted unanimously not to participate in the lumber and plywood futures market. As Managing Director, and as a long term member of the Plywood Advisory Council of the Chicago Board of Trade, John Walker was uniquely qualified to research the pros and cons of this matter, and his position paper presented to the Board made the case against in a cogent and forceful manner.

Outlook: With respect to a housing downturn and a general recession, many people have been waiting for the other shoe to drop for more than a year now. We saw a slowing of building permits in our area during the last three quarters of fiscal 1978. We will not be surprised to see that slowdown continue during 1979. On the retail side, our momentum increased as 1978 progressed, and we believe we can maintain momentum at retail in 1979. Our net outlook is for another 1970, with a relatively soft landing, rather than the severity of 1974 and 1975. We will be working to optimize our results, no matter what happens in the future.

Other: We recognize the new responsibilities with which the Board has entrusted us. We would like to formally recognize the outstanding support being given to the reorganization by Lowe's people, and to express most sincere appreciation for that support and their dedication to the future of Lowe's. With their continued help, Lowe's will remain a successful team. Our goal line each year is a better bottom line. We like the game, and we work to win.

Cordial good wishes,

Robert L. Strickland

Robert L. Strickland
Chairman of the Board of Directors

Leonard G. Herring

Leonard G. Herring
President and Chief Executive Officer

People and Organization/Store Operations

Reduced to its essentials, running a retail store is a pretty simple business. All you have to do is buy and stock the right products at the right cost, tell the right customers what you have, then sell those products to those customers at a competitive price in a pleasant, inviting atmosphere.

But when you are running 200 stores spread over a 19-state region, opening an average of 20 stores a year, dealing in over 10,000 individual items and moving almost $800 million in merchandise every year, the simple business of buying and selling can become a little complicated.

Running those stores right, with all the coordination and backup that entails, requires a team of bright people experienced in their fields who work together with camaraderie and an evangelistic zeal about their role in the overall scheme of things.

Camaraderie? Evangelistic zeal? Strange words to use about a company involved in the mundane business of selling ordinary articles like hammers and nails and building lumber? At Lowe's, those words typify a way of life.

"With 200 stores, more to come, and the Billion Dollar Sales Dream on the doorstep," says Dwight Pardue, "mistakes get leveraged." As Lowe's Executive Vice President for Store Operations, Dwight's job is to see that mistakes don't happen, that those 200 stores of today and the 200-plus stores of tomorrow are run right—every time.

With, in Dwight's words, "the Billion Dollar Dream on the doorstep," the question becomes: what do you do for an encore? The planning and action to answer that question actually began years ago, in 1970, and the first step was the establishment of the Regional concept, a decentralization move which has been highly successful, and today includes 5 Regional Vice Presidents reporting to Dwight. The Regional staffs total 60 people. And of course, the key people at Lowe's—our Store Managers—report to the Regional Vice Presidents. The changes now taking place at Lowe's—and others still to come—are further results of that planning and are aimed at taking Lowe's toward goals which a few short years ago were more of a dream than a reality.

Lowe's strategy for moving beyond the Billion Dollar Goal in the 1980s—like the basics of our business—is pretty simple:

In the recent past, we have derived about 60 percent of our income from sales to professional builders and about 40 percent from sales to retail customers—mostly homeowning "do-it-yourselfers." Both buy essentially the same products, but they buy them in different ways, and the cost to us of selling them are different: the margins on retail sales are greater because some 85 percent of them are cash and carry while sales to pro-builders normally are on credit—we carry the receivables and deliver the merchandise.

The strategy, then, is two-pronged: hold on to our strong position with the pro-builder—in the past 26 years we have developed an expertise in selling to him and he depends on us—also the high per store pro sales volume is important in keeping low operating expenses as a percent of sales. Finally, we derive enormous buying power and manufacturer importance from that volume. Then we have put renewed emphasis on our retail customers—make sure they know what merchandise we offer, that we sell it at "Lowe's Low Prices" which are competitive with or lower than they can buy it anywhere else, and make shopping at Lowe's a pleasant, renewable, inviting experience.

Within that strategy, we plan to maintain our overall rate of growth, keep as tight reins as possible on expenses, and aim for a 50/50 ratio between sales to pro-builders and sales to retail customers. That 50/50 mix will put even stronger profits on the bottom line and help dampen the impact of the normal three to four-year cycle of slowdowns in the nation's housing starts.

That strategy puts Dwight Pardue and his staff in Store Operations squarely on the firing line—they are the ones ultimately responsible for store sales and profits. "To execute our part in the plan," Dwight says, "we are working in cooperation with the other four basic departments at Lowe's to effect changes on a wide front."

In cooperation with the Real Estate and Merchandising Departments, Store Operations is assisting in the development of the Lowe's store of the 1980s which will be bigger, brighter, and better designed to serve our retail customers and more efficient for our pro-builder.

We have developed programs to assure that new stores are manned with qualified people, to help to see that they are set up and brought on-stream on a timely basis, and we are recommending that older stores be retrofitted up to the Lowe's standards for the 1980s.

Store Operations has actively encouraged the expansion of Accusale computers and point-of-sales terminals in every Lowe's store. Our experience has been excellent—in fact, salesmen who are used to the Accusale system don't want to transfer to stores without it!

Store Operations works very closely with the Control Department, notably Arnold Lakey, Vice President—Credit—and his people to implement credit policy in our stores and also with our internal store audit team.

In its own area, Store Operations is working through our five Regional Vice Presidents and their staffs to investigate voids (opportunities) in the coverage of the current Lowe's store network and coordinate with the Real Estate and Expansion Department to schedule the new store construction or acquisitions needed to fill them.

Just this last year, out of Region 2 in Store Operations came the idea and action which has resulted in Lowe's new private label credit card. Ben Phillips, Region II Vice President, assigned a member of his staff—Bill Grady—to check Lowe's retail credit service against alternative services. With Dick Griffin, Vice President for Retail Sales, an exciting, powerful program was developed and will be introduced in 1979, and in all five regions!

The Department is also continuing to expand the Lowe's concept of low-energy housing construction, an integral and successful component of the Lowe's Homestead Program which provides a complete package of home building components in a variety of design plans.

In its Leadership School, Store Operations is broadening its training curriculum to provide the personnel needed to staff Lowe's expanded store network for the 1980s.

Because no two Lowe's marketing areas are exactly alike, each Lowe's store is operated as a separate business entity designed to serve the specific needs of its sales area. Each of our Store Managers has a great deal of latitude and carries a heavy responsibility for meeting his store's profit dollar budgets, for safeguarding the assets entrusted to him, and for training his personnel to assume greater responsibility with Lowe's. Our Store Managers are, in effect, executives responsible for a business which in a typical situation has some 20 employees and over $4 million in annual sales. This year, for the first time, our store managers will earn a portion of their bonus based on return on investment—their net before tax dollars divided by their average inventory and receivables.

The Lowe's managers, assistant managers, master merchandisers and salesmen who will be responsible for the success of our stores in the 1980s, says Dwight, "will have to be better informed and better trained to deal with the customer who every day is becoming more knowledgeable."


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Merchandising is more than buying, more than advertising, more than selling—a lot more.

At Lowe's merchandising begins, really, with the basic marketing question—what do our customers want? The answer to that question leads to others: What product will best fill that customer's desire? Who makes the best of that particular product? For what price can we buy and sell it? How can we be sure that item is where that customer wants to buy it, when he wants to buy it? How can we best inform our customers of the products we sell and the prices we charge for them? How can we make it most convenient and most pleasant for our customers to buy that product at a Lowe's store rather than from one of our competitors? In our view, merchandising ends only when all those questions have been answered correctly, the customer has bought that product from us, and the customer is satisfied with the value he or she received.

Because we view merchandising as this kind of total marketing concept, every step of that process is under the direction of one of four merchandising directors led by J. Ross Burgess, Jr., our Executive Vice President for Merchandising.

Frankly, we have not handled our merchandising efforts that way until recently.

For a long time we had a much more divided organization of merchandising. We saw selecting the product, pricing it, and controlling in-store displays and point of sale materials for that product as a function called "marketing", and we had a department to do that. We saw buying an item as a function called "purchasing" and had a separate department for that. We saw delivering that item to our stores as another function called "distribution" and had another department for that. We saw the job of telling our customers that we sell that product, and its selling price, as another function called "advertising" and—yes—we had a fourth department plus an agency for that. And the four people who ran those four departments each ultimately reported to a different top executive. The results? Not enough efficiency or purposefulness.

But in August of 1978—after more than two years of planning—we got our act together. We re-thought our approach to merchandising and realized it should be viewed as a total system for getting products to people. We grouped the products we sell into four primary areas: structural lumber; building commodities; specialty building materials; and consumer durables & seasonal products. We gave to four bright, tough young men, control over all the factors that affect products in each of those groups from their source selection to their point of sale. We gave each of those four merchandising directors a staff of merchandising managers and buyers who are specialists in particular sub-groups of related products. And we gave all those people cross-training in areas in which they previously had not had experience.

As a result, we now have trained people responsible for tracking every Lowe's product from the time it is first considered for sale in a Lowe's store until it is purchased—or not purchased—by our customers. That enables us to react quickly and positively to changes in our markets which seem to accelerate every day. In the few months that new approach to merchandising has been in effect, we know that not only is it working, but the passage of time will only improve our performance.

Restructuring the merchandising function at Lowe's is one of the most significant changes for Lowe's future in decades.

Then, we took a closer look at our desire to increase the retail portion of our business and began to ask hard questions of how to do it and do it better.

We looked at the sales floor environment of our stores from the retail customer's standpoint and found it was—well—below par. It seemed dark, products were not grouped logically and many could be seen only in the warehouse. Result? We re-thought our whole idea of what a Lowe's sales floor and product presentation should look like. We made the sales floor larger to add room for display of all the products the retail customer wants to consider. We added high intensity lighting and brighter colors. We arranged products logically into departments and identified them with clear, readable graphics to lead customers to them.

We looked at how our products were packaged, again from the retail customer's viewpoint, and found it frustrating. A customer building a bookshelf for his den doesn't want 50 board feet of shelving lumber. He wants six pieces of shelving three feet long and two pieces of shelving ten feet long. He doesn't want someone in our warehouse to pick them out for him, either; he wants to select them himself—on the sales floor—and inspect them for grain, knotholes and defects. And he doesn't want 50 pounds of three-penny nails. He wants just enough nails of the right size to build his bookshelves. So we are redesigning our product packaging system to give that retail customer what he (and increasingly, she) wants.

This new approach to merchandising sounded great—in theory. To see if it would work in the harsh realities of the real world, in 1978 we built a new Lowe's store on Cherry Street in North Wilkesboro by the new ground rules. We added to the staff a master merchandising manager to give the retail side of the store's business the kind of attention our assistant managers traditionally have given to the pro-builder side of our business. We trained the sales force to answer the retail customers' questions and help them find what they want—not just take orders.

We view that new store as a kind of practical laboratory experiment, and we invite your attention to page 26 for the Feature Story of this Annual Report. The nice thing about this laboratory is that included in it is a very, very active cash register! We haven't yet reached a perfect system for fully meeting the needs of the retail market as they exist in 1979, much less the demands of the 1980s. But we're a quantum leap closer than we were. We have already incorporated many of the lessons learned in that store into the prototype of the Lowe's stores we'll build next year, and we have added other things we have learned since that store went into operation. We plan to keep learning, keep adding and subtracting, but at this point we are sure of at least one thing—we are on the right track.

There is one other question related to merchandising which we are continually asked: Is Lowe's planning to get into any major new areas of business it is not in now? Here is Ross Burgess' answer: "Certainly we will continue to add items related to what we offer now. We have boasted for years that a customer can walk into any Lowe's store and buy everything he needs to build a home from the stake to mark the corner of the foundation to the front door bell. Over the years we have expanded our product lines to include new items for the inside of that home as they have come on the market, and our manufacturers continue to develop exciting new do-it-yourself products, and, we plan to continue, also, our dominance in other products to help our customer cut the grass and patch the holes in the asphalt driveway. We will continue to expand and update our product lines to increase market share, but I don't see us launching into any major unfamiliar areas. We will search for better ways to serve our market, but these efforts will most likely revolve around two basic centers—a customer, and a home."


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People and Organization/Real Estate and Expansion

Grow or be swallowed up. Progress or wither away. Timeless shibboleths more than ever true today when the pace is more frantic, the stakes higher, the competition tougher, the customers more sophisticated and demanding of value.

A big part of the job of Lowe's newly consolidated Real Estate and Expansion Department under Vice President Wade Dupree is to predict the future—not with hip-pocket guesses and a crystal ball but with facts, facts, and more facts—all interpreted through the critical eye of seasoned experience. Where will the growth be this year, next year, five and ten years down the road? Predict that growth and make sure a Lowe's store is planted squarely in its path. Pinpoint that growth—specifically—for every city, town, county, state and region in Lowe's sphere of influence. That sphere already spreads over more than a third of the U. S. geographically and includes almost half of its population, and there are areas within and without those boundaries which beckon with promising potential. Where will new stores be needed, and when? Where must existing stores be refurbished? Of Lowe's $25 million capital budget for 1979, three-fifths is scheduled for store facilities—land, building, and improvements. Obviously, these must be either-or business decisions.

New market areas for Lowe's are never selected in a blind rush. As in The Mikado, we've "got a little list" of selected market areas. More study may either side-track them, or move them up the list as "strong possibles." More thorough consideration and executive review elevate good ones to the phase of "active investigation." Before the go-decision is reached, an area has been studied, investigated, and researched, for as much as three years. And all the numbers have to come up right.

Once a general market area is targeted, the Real Estate Department studies it again by much more specific criteria. Is it better to buy an existing facility and bring it up to Lowe's standards, or should we start from scratch? If it's a ground-up situation, which is the best site—here or two blocks down? Two blocks can make a difference in the hundreds of thousands of dollars. Ten years ago a typical site for a Lowe's store would have been in an industrial park with a rail siding to serve the pro builder trade. Today that site is more likely to be in the middle of a high density commercial district, perhaps across the street from a major retail shopping center. The final site selection hurdle is the approval by Store Operations.

With a site nailed down, the Real Estate Department's engineering and construction crews move in. In line with Lowe's increased emphasis on retail sales, the facility we will build on that site will be far different from the typical Lowe's store of today. It will be larger, with a 13,250 square foot sales floor, increased about a third from the 10,000 square foot sales area we built last year. That sales floor will be lighter, brighter, more cheerful. The front doors will be broader and operated electrically. When retail customers head for the parking lot with an armload or cartload of purchases, we don't want them to have to struggle with a manual door. The office will be at the side, not the back, and all electrical wiring and heat ducts will be in the ceiling, not the slab floor. The back wall in the sales floor will be wood. All these changes will make future expansion and necessary change much easier, and less expensive.

Many pro builders say they don't particularly care to thread through our retail sales floors. In the new Lowe's store of the 1980's, they may come in through their own entrance and go directly to a special, separate area off the sales floor where our pro builder sales personnel can work with them personally.

This new store's loading dock will have two levels, one to serve the pro builder's trucks, and one for the retail customer's family station wagon. Structural lumber stored in the yard will be in covered sheds to protect it from the elements and keep it looking better longer.

Even before the construction crew starts breaking ground, the Real Estate Department's backup personnel in North Wilkesboro will be assembling, banding and shipping all the materials needed to build the store in the Department's own warehouse. Its accounting personnel will be putting a careful pencil to construction costs, and its operations personnel will begin to program the store merchandising displays. Others will begin to integrate that store into the Company's overall distribution, marketing and accounting systems.

When the builders have completed their work, the Real Estate Department's Store Finish and Decorating personnel are ready to start. In come the display gondolas specified by the Merchandising Department, with some built in the Real Estate Department's own workshops. Up go the merchandising displays. In flows the stock. In six weeks, the Store Finish and Decorating crews will turn an empty shell of a building into a bright, cheerful sales area complete down to packages of finishing nails in the bins and ashtrays on the pro builder salesmen's desks. That process used to take eight weeks. The goal now is to reduce it to four.

While the Store Finish crew has been at work, the Real Estate's Safety and Security experts have also been busy installing the store's security systems, eliminating potential hazards to customers and employees, and arranging insurance coverage.

Even before the Store Finish crew is ready to hand over the keys to the manager, the Real Estate Department's Operations personnel have been at work planning the store's Grand Opening, inviting local officials to attend, scheduling news coverage, and working to co-ordinate local sales promotion with centrally planned and produced advertising. When Lowe's opens a store, everybody in town is going to know about it.

And while all this has been going on, the Department has been coordinating with Store Operations in training the store's personnel in its Leadership School and at other stores.

The Real Estate Department's ultimate goal is to have every step of Lowe's expansion program, from the initial investigation of a possible marketing area to the Grand Opening, executed by the Company's own experienced personnel, under Wade Dupree's direction, to insure precise coordination. Much of that staff is already in place, but because of the company's rapid rate of growth, some new store construction is now being contracted out to private builders.

Says Wade Dupree: "We have in this department a powerful wedge of dedicated, aggressive, experienced young people who know what they are doing when it comes to locating and opening a new Lowe's store. Once that wedge is put into motion, it's virtually impossible to stop short of success."


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When Carl Buchan began in the building material business in North Wilkesboro in 1946, he was able to keep up with what he bought and what he sold and what he needed to re-order with a No. 2 lead pencil and a well worn order pad.

Of course we've improved on that system quite a bit over the years as our network of stores and the number of items we sell has grown by geometric proportions. We thought we were really entering a new age in the early 1970s when we began installing our Accusale terminals in many of our stores. Simply by pushing a series of buttons, our sales people could enter an order for a door, compute its price and add the tax in the blink of an eye—and virtually eliminate human error. That system worked fine until a rather irritated customer came back to the sales desk and said: "The fellow in the back says you're out of doors. May have some in three or four days, maybe a week. I need my door today. Give me my money back and I'll go buy it somewhere else." That's really not the way to stay on top as America's premier seller of building products.

Another problem: In America's volatile economy of today, a thousand factors, from a strike, to a flood, to the decision of group of government officials meeting halfway around the world, can change our cost of buying merchandise almost overnight. Whether that change is an increase or a decrease, we need to change our retail prices accordingly—and quickly. If our cost of plywood goes up and we continue selling it at the old price, for instance, we lose margin. If our wholesale cost of plywood goes down, so does our competitors'. If they react quicker than we do to reduce the retail price of plywood, that's where the customer is going to buy plywood.

Our solution to these and a host of related problems is Project 80, a series of computer systems being developed by our Administration Department under Vice President, Rod Morrow, which is catapulting Lowe's approach to inventory control into the 1980s and beyond.

Here's how it works:

First, Project 80 is built around our existing Accusale terminals which by the end of Fiscal 1979 will be expanded from 165 stores at present to all 200 of our current stores and any new stores we add. In addition, we are installing about 80 similar terminals at strategic points throughout our General Offices in North Wilkesboro.

Second, we are adding a memory unit to each store's Accusale which will know how many of each item that store has in stock. It will automatically deduct from that total each time a sale of that item is made. When a salesperson enters an order for that item, the Accusale will instantly tell him how many of that item are in stock at that moment. That alone should cut down considerably on our quotient of irritated customers to whom we have sold merchandise we don't have on hand.

Third, we are enhancing Accusale's ability as a two-way channel of communications between each of our stores and our company headquarters. Each day, Accusale will record every sale of every item in every store. At night, over a telephone hookup, each Accusale will automatically transmit that information back to our headquarters. After a bit of whirring and humming, the central computer will know if any store's stock of an item has reached a pre-determined re-order point and whether the company's central warehouses have sufficient stocks of that item to fill that store's needs and similar needs of other Lowe's stores for the same article. If the central warehouse stock is sufficient, the computer will prepare a shipment order for that item to that store.

If the combined needs of all Lowe's stores for that item will push the warehouse stock below a pre-determined re-order level—and only if it will—the next morning, the system will alert the appropriate merchandising manager to the inventory situation and recommend a re-order. If the merchandising manager wants to re-order, he can touch one button and the computer will print out a purchase order to the supplier of that product with the cost already totaled, if the price is pre-negotiated. By touching other buttons, the merchandising manager can increase or decrease the quantity required. If the merchandising manager's experience tells him seasonal or other factors are involved, he can instruct the computer to track the situation and give him an update the next day for a decision.

If the item needed by a store is in our warehouse, a lot of other things will happen:

First, the computer aggregates all the items ordered for a particular store, totals their combined weight, and arranges them in the same sequence in which they are stored in our warehouses. This way, the personnel assembling that order for that store can "ticket-pick" the necessary items in order instead of running to the front of the warehouse for one item, to the back for another, then to the front for a third.

Because the shipping order lists the weight for each group of items in that store's order, the people who schedule our truck shipments can more quickly decide whether they need to send that store one truck, two trucks, or can combine its order with an order for another store on the route.

Project 80 will also facilitate ranking shipments by priority. A store low on an item which is being specially advertised or promoted will have its order ranked higher than a store which has hit the re-order point on a non-advertised item.

Once a store's order is assembled and scheduled, the computer—through Accusale's communications link—will tell the store manager the merchandise is on its way and when it will arrive. Should a store have an unforeseeable (but delightful) run on an item, and hit an out-of-stock situation, at least our sales people can tell the customer we are out-of-stock before they ring up the sale and can tell him exactly when we will have more—Thursday afternoon, not "in three or four days, maybe a week."

The two-way communications feature of Project 80 has other benefits: Our stores will now receive a weekly update of prices and the Accusale's memory will automatically be changed accordingly. If we have a drastic price change early in the week, on, for example, all types of pre-finished paneling, we can instantly recommend to our store managers that they alter their retail prices on that category of product accordingly, without waiting for the weekly update. That communications process will be technically, 22 times faster than the teletype system we used previously.

"The net objective of Project 80," says Rod Morrow, "is to get critical inventory information into the hands of the decisive individual for action within 24 hours—not weekly as we did under the old system—and put it into a form he can use easily and quickly. The net impact of Project 80 will be to allow us to more precisely manage our inventories to make sure each store has the stock it needs—and only the stock it needs—to fulfill anticipated customer demand. That will sharply reduce sales lost because we are out of stock on an item, and give us a higher return on the inventory we have on hand. Both of those benefits should be clearly identifiable on the bottom line."


LOWE'S
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People and Organization/Control

The responsibilities of the Control Department are manifold, encompassing the Corporate Offices of Treasurer, Secretary, Controller, and Vice-President, Credit. The disciplines therefore include accounting, finance, payroll, accounts payable, tax returns, expense reports, and audit functions. In accounts payable alone last year we processed over 80,000 invoices for payment to suppliers. Keeping on top of all those numbers — maintaining the control we must have — is of significant importance to Lowe's future.

Many purists think a company's cash is really what it's all about. Our 5,000 employees who are paid weekly with many of them living on a sales commission, think those weekly checks are a large part of what it's really all about. These sensitive areas at Lowe's, as well as our Profit-Sharing records, are in the capable hands of Rex Shumate, Vice-President and Treasurer.

Dwight mentioned Arnold Lakey earlier. As Vice-President, Credit, he and his staff are responsible for Lowe's Accounts Receivable safety and health. Since 48% of our Shareholders' Equity was "on the books" as Receivables on January 31, Arnold understands his responsibility, and his 22 years experience and his staff enabled him to improve Lowe's Receivable performance in 1978.

Now we are blending our Project 80 computer capabilities into our Control Department, where Richard Elledge, our Controller, believes it can have the same kind of dramatic management improvement it will have on Store Operations and Merchandising.

When Lowe's started its expansion in the 1950s, there were valid reasons to set up each new store as a separate corporation, for each of which we had to file tax returns and maintain general corporate records. About 18 months ago, when we reached 160 stores, we found the paperwork that approach generated was strangling. As of January 31, 1979, we have consolidated virtually all our stores within a single state into a single state corporation which significantly streamlined one basic control function.

Now Project 80 is allowing us to extend the streamlining of our control functions in a wide range of other areas:

After the Project 80 system receives approval from a merchandising manager to issue a purchase order to a supplier, verifies the cost of the item, and knows the merchandise has been received by either one of our warehouses or one of our stores, it will automatically send a copy of that purchase order to the Control Department's accounts payable section for payment. That information used to have to pass through a lot of hands which cost us time and money.

Our new Accusale system will automatically transmit store employees' hours worked to our General Office weekly so we can issue paychecks with a lot less manual work than our old payroll system required.

Every company has to keep a general ledger, and we've always kept ours, but now — again with Project 80's help — we are making our general ledger a central element of our profitability control statement, which Richard Elledge calls, "the hub of a wheel with many spokes." That change will transform our general ledger into an accurate, real-time summary of our company's on-going operations which will give our top management hard data in a concise, summary form which will facilitate better decisions on the company's operation and direction.

We are also cranking into Project 80 a 24-month sales and expense history on each of our stores which we will update monthly. With that information we can see exactly what is happening to each store's utility costs, taxes, personnel expense and a lot of other factors. That will not only allow us to project more accurate budgets for each of our stores, but will let us compare budgets to actual performance monthly and quarterly. Where changes are necessary, we can shift and adjust to help each store remain profitable.

In the past, our five regions were responsible for conducting semi-annual inventories for their stores, with on-site review by our outside accounting firm, to reconcile what the books said should be in each store and what was really there — and account for any discrepancies. Now we direct our store inventory operations from our General Office with eight inventory teams of three professional people each. We have also expanded our internal audit team who have established a track record of being an effective "early-warning" system when procedures are being misinterpreted.

Because more and more of our control functions are being brought into the General Office — where they belong — we have increased the number of people in our Control Department from 75 about three years ago to 135 today and have budgeted for 16 more in 1979. Those people are highly-qualified in their field, and are trained to spot potential problems and recommend ways to solve them.

Still another significant change we have made in the control side of our business is to alter our accounting basis from First-In, First-Out (FIFO) to Last-In, Last-Out (LIFO). As Richard Elledge explains it: "The change will have a positive impact on Lowe's over the long haul because it gives us a closer match of current revenues to current costs. In periods of the kind of high inflation rates we are now experiencing, it is considered a more conservative accounting principle."

Conclusion: Putting It All Together

We hope all the words, ideas, and numbers we have put into this People and Organization section draws a profile of Lowe's Companies, Inc. as a living, growing, dynamic forceful team of its own — because that's the way we feel about it.

Going back to what Dwight Pardue said at the beginning of this section, Lowe's Billion Dollar Dream is indeed, "on the doorstep." But long before the Dream becomes reality, we have already been reorganizing the team, improving the game plan, and charting new goals for the years to come.


LOWE'S
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LOWE'S

Customer Analysis

The Marketing Basic: To a marketing company, serving customers is the name of the game. Therefore, we give primary and continuing attention to the preferences of our customers and their changing needs for the goods and services we supply. We serve a wide cross section of people with varying shopping habits and individual interests, but there are certain attributes shared by all. Our customers appreciate prompt and courteous attention, they expect value at the time of their purchase and efficient service both during and after the sale.

Customers Served: This is such an important measurement that we track our total transactions every day for every store. Growth in the number of customers served measures acceptance of our products and services, and Lowe's customer transactions grew from 8.8 million in 1977 to 10 million in Fiscal 1978. The average store rang up 53,900 transactions this year for an all-time record for Lowe's. Our average customer transaction also set a record, increasing year-to-year from $75.04 to $79.20. Who are these customers? We classify them into two basic categories—Professional Buyers and Retail Customers.

Professional Buyers: We define professional buyers as those customers who purchase the products we sell in the course of their business, for nonpersonal use. This group includes home builders, developers, contractors, carpenters, electricians, painters, plumbers, and industrial and institutional purchasing agents. Within the basic marketing areas served by 199 Lowe's stores, these professional buyers number about 130,000. About one-third of this number are Lowe's customers for at least a portion of their professional buying needs.

Retail Customers: Our retail customers are primarily home owners or "householders," buying for personal or family use. Since our merchandise line is composed basically of products for home building, remodeling, home furnishing, and entertainment, then the number of households in each Lowe's market provides the best census of marketing opportunity. The present 199 store marketing areas serve just under 10,135,000 households, an average of 53,300 for each store market area.

Lowe's Customer Purchase Trends: Table A is a five-year recap of Lowe's sales to these two major customer groups.

Although sales to professionals fell by 10% in the housing market decline during 1974, 53% of our sales volume in 1974 came from that source. In 1975, it began to recover, rebounded strongly in 1976 and 1977, then slowed its growth again during 1978, as the housing market began another cyclical move, as measured by building permits in our marketing area. Our retail volume is less volatile than our pro business. However, the general economic recession hit our marketing area very hard in 1974 and 1975 and our sales gains were below average, and below our goal of 20% growth each year. In 1978, our retail growth has been exciting. Dick Griffin, Vice President, Retail Sales, has provided superior leadership for our retail marketing programs. We have increased our advertising budgets and Sterling Advertising, our agency subsidiary, has improved the quality and effectiveness of the ads themselves, most notably our full-color tabloids, billboards, and broadcast media. Comparing compound growth rates over the years shown, retail volume has increased less than pro, but its growth has been more consistent.

Outlook: We project that 1979 will continue the trends shown in 1978—a further slowing of the housing market and some general economic slowdown as well. We intend to increase our market penetration to builders, and to continue our retail momentum. The percentage mix could be comparable to that shown for 1975.

Lowe's Customer Purchase Trends — A

Thousands of Dollars

Fiscal Years(1)	1974		1975		1976		1977		1978		
Category	Sales	% of Total	Sales	% of Total	Sales	% of Total	Sales	% of Total	Sales	% of Total	C.G.R. (2)
Professional Buyers	$182,017	53%	$209,901	54%	$308,457	59%	$411,613	62%	$468,983	59%	26.7%
Change(3)	−10%		+15%		+47%		+33%		+14%		
Retail Customers	$164,326	47%	$178,353	46%	$210,938	41%	$250,012	38%	$324,142	41%	18.5%
Change(3)	+ 7%		+ 9%		+18%		+19%		+30%		
Totals(4)	$346,343	100%	$388,254	100%	$519,395	100%	$661,625	100%	$793,125	100%	23.0%
Change(3)	− 3%		+12%		+34%		+27%		+20%		

(1) Fiscal years ending January 31 of following calendar year.
(2) Compound growth rates, 1974 through 1978.
(3) Percent change from previous year.
(4) Totals may not add due to rounding.

Product Analysis

Lowe's Merchandise Sales: Listed here is the merchandise we sell, grouped in eight major categories. Table B below shows the sales results in each category for 1974 through 1978. We do not list "net product profit," because our stores are our true profit centers.

1. Structural Lumber: Dimensional lumber, framing, studs, joists, posts, boards, and treated wood.
2. Building Materials and Hardware: Plywood, gypsum board, roofing, paint, paneling, doors, windows, mouldings, masonry products, insulation, siding, floor covering, carpeting, ceilings, nails, locks, and hardware.
3. Plumbing, Electrical, Heating and Cooling: Bath tubs, shower stalls, pumps, plumbing fixtures, fittings, pipe and supplies, light fixtures, cable and electrical accessories, furnaces, fireplaces, heating equipment, ventilators, central and room air conditioning.
4. Kitchens and Home Laundry: Refrigerators, freezers, ranges, dishwashers, disposals, microwave ovens, cabinets, counter tops, washers, dryers, and yes, even kitchen sinks.
5. House, Yard, and Farm Supplies: Power lawn mowers, riding mowers, garden tillers, power tools, hand tools, storage buildings, bicycles, go-carts, housewares, giftwares, farm roofing, fencing, and barbed wire.
6. Home Entertainment: Color and black and white televisions, stereo components and consoles, radios, CB equipment, and tape recorders.
7. Mobile Homes: Factory-built housing.
8. Special Order Sales: All merchandise sold by Lowe's which is not regularly stocked at a Lowe's store, but which is ordered for customers from manufacturers or local distributors.

Trend Analysis: A study of these product sales trends and growth rates can best be made with a simultaneous review of the changing trends in Lowe's customer mix, shown in Table A.

This year all product categories posted sales increases, except for Mobile Homes, a business phased out except for one location, since it did not provide as high a return on investment as our other merchandise lines. The growth this year of the other seven categories was the best balanced increase across our total product line that we have had in many years. Lumber achieved the largest sales increase, for the second year in a row. Sales of treated lumber and sales to retail customers were stand-outs. Building materials and hardware grew 19%, and slipped just slightly in percent of total. Again, retail sales gains offset lower sales to builders. Plumbing, Electrical, Heating and Cooling grew just 13% in 1978, and we are not satisfied for this important category to continue to slip in percent of total. New merchandise management has a challenge! Kitchens and Home Laundry increased 21% for another solid year. House, Yard, and Farm, always a steady growth area, had another good year. Home Entertainment, after a weak 1977, posted a strong 21% gain, reflecting good merchandise management performance.

Outlook: We plan to increase our systems approach to product marketing, typified by our Homestead and Low-E houses, and by our Weekender series. The systems approach takes our existing product line and organizes parts of it into a new "package" for our customers, such as all the materials, plans, and instructions needed to build a 10'x10' deck addition, for a specified price.

Lowe's Product Sales Trends

B

Thousands of Dollars

Fiscal Years (1)	1974		1975		1976		1977		1978			
Category	Sales	% of Total	Sales	% of Total	Sales	% of Total	Sales	% of Total	Sales	Change (2)	% of Total	C.G.R. (3)
1	$ 55,493	16.0%	$ 63,802	16.4%	$ 98,940	19.1%	$133,887	20.2%	$168,067	+ 26%	21.2%	31.9%
2	156,731	45.3%	180,026	46.4%	239,363	46.1%	312,125	47.2%	371,778	+ 19%	46.9%	24.1%
3	33,705	9.7%	38,217	9.8%	46,960	9.0%	59,946	9.1%	67,560	+ 13%	8.5%	19.0%
4	22,522	6.5%	23,692	6.1%	26,787	5.2%	31,827	4.8%	38,659	+ 21%	4.9%	14.5%
5	24,368	7.0%	27,520	7.1%	36,559	7.0%	41,801	6.3%	50,615	+ 21%	6.4%	20.1%
6	11,558	3.4%	11,354	2.9%	14,722	2.8%	14,494	2.2%	17,519	+ 21%	2.2%	11.0%
7	4,478	1.3%	3,041	.8%	3,086	.6%	2,135	.3%	464	- 78%	n.m.	n.m.
8	37,488	10.8%	40,602	10.5%	52,978	10.2%	65,410	9.9%	78,463	+ 20%	9.9%	20.3%
Totals	$346,343	100.0%	$388,254	100.0%	$519,395	100.0%	$661,625	100.0%	$793,125	+ 20%	100.0%	23.0%

(1) Fiscal years ending January 31 of following calendar year.
(2) Change from previous year.
(3) Compound growth rates. 1974-1978
n.m. = not meaningful.

The Stores/Expansion Perspective

The Moment of Profitability: Lowe's moment of profit generation occurs when a customer buys a product from a Lowe's salesperson at a Lowe's store. Retail sales of building materials and hard goods is Lowe's business and our stores make the sales. Each one of our 199 stores is a complete and distinct business entity, and each Lowe's store is a profit center. As Lowe's market area has grown into 19 states, market differences evince themselves—different competition, product uses, and customer preferences. And market conditions change in established areas, too. The Lowe's store manager has the strategic responsibility of continuing marketing research. He must adapt, he must provide feedback, and he must achieve his budget. He is buttressed in this effort by strong leadership from our Regional Vice-Presidents and their staffs. Also, our Managers rely on the important services from corporate headquarters—store operations, merchandising, training school, distribution, real estate, administrative services, and control.

Basic Growth Policy: A performance-minded management must invest its resources of time, talent, and funds by allocation to the most attractive opportunities in priority order. Do we continue to add stores? Do we diversify into new business, or new products? There has been no lack of opportunities for Lowe's to diversify, horizontally integrate, or to merge, and time and study have been devoted to some of the more promising ones. Some of the businesses we tried prior to becoming a public company were discontinued, not because of lack of profitability, but because their rate of return compared unfavorably with that of our stores. And this is the yardstick by which we continue to evaluate the opportunities for new ventures, and the performance of each of our stores.

Our basic growth policy is that new stores, in new geographic areas, to serve new customers, receive first priority for retained earnings. Secondly, we want our established stores to get better established, through increased sales each year. We cannot allow our store sales to plateau, in these inflationary times, particularly. Here's where new merchandise lines and product evolution has a role to play. We have received better results, however, from building a new better store in a better location in the market. Also, during the last few years, we are pleased with the results of "clustering"—opening second stores in long established but growing markets—Winston-Salem, Raleigh, Columbia, Greensboro, Durham-Chapel Hill, which has increased Lowe's "presence" and convenience in the market, lowered our promotional expenses per store, and increased our sales in the market.

Lowe's Average Store Sales Trends **A**

	Average Stores Open During Year (1)	Pro Sales Per Average Store (000)	Retail Sales Per Average Store (000)	Total Sales Per Average Store (000)
1974	115.8	$1,572	$1,419	$2,991
1975	131.3	1,599	1,358	2,957
1976	148.0	2,084	1,425	3,509
1977	168.3	2,446	1,485	3,931
1978	185.8	2,524	1,745	4,269

(1) Weighted by taking the number of stores open at beginning of year; plus new stores opened during year computed by adding total new store months of operation and dividing by 12.

Store Performance: Table A is a much-condensed summary of the method used by our Marketing Service Department, to provide internal judgmental measures for product group performance, advertising and sales promotion allocations, etc., by managers of functions instead of managers of stores. Managers of functions find the "Average Store" concept useful. Note that although we ended the year with 199 stores, the large proportion opened in the fourth quarter held our number of average stores opened during the year to 185.8.

New highs for Lowe's were achieved in Pro sales, Retail sales, and Total sales per average store. As a point of reference, in the late 1960's, our average store did about $1,400,000 Pro and about $600,000 Retail, for a $2,000,000 total. Compared to this year's total of $4,269,000, average store sales have more than doubled. Interestingly, the $2,269,000 incremental sales volume per store is comprised of $1,145,000 Retail, or 50.5% and $1,124,000 Pro or 49.5%. So incrementally, we have achieved a 50-50 mix!

Regional Vice-Presidents, and Store Managers, among others, need to know more about specific stores and their sales growth over time, because when a company is adding new stores each year as we are, these new store sales can obscure the sales progress of the more established stores. The truth is, our established stores are increasing sales, and at a pace which represents more than just inflationary gains, through a combination of more effective sales and service, better merchandising programs, market growth (more customers and more disposable income), new products and improved product availability, and the renovation and enlargement of stores, to name a few. Table B presents a progression of our store sales beginning with fiscal 1974: 105 Lowe's stores were in operation at the end of fiscal 1973 and 20 new stores were opened in the year.

Those 20 1974 stores were in their fourth full year of operation in fiscal 1978, and they averaged $4,564,000 in sales, up 26.6% average growth per year from their average volume in fiscal 1975. The 16 1975 stores, only in their third full year in fiscal 1978, achieved an average of $3,008,000 in sales per store. In reviewing the superior growth rates of the

Lowe's Store Sales Progress **B**

Thousands of Dollars, Rounded Totals   Fiscal Years Ending January 31 of Following Calendar Year

	Fiscal 1974		Fiscal 1975		Fiscal 1976		Fiscal 1977		Fiscal 1978		
Stores	Total Sales	Sales Per Store	Total Sales	Sales Per Store	Total Sales	Sales Per Store	Total Sales	Sales Per Store	Total Sales	Sales Per Store	C.G.R.(2)
105 Established Stores (1)	$326,714	$3,112	$330,359	$3,146	$408,539	$3,891	$485,262	$4,622	$532,674	$5,122	13.3%
20—1974 Stores	19,629	981	45,011	2,251	63,717	3,186	76,911	3,846	91,282	4,564	26.6%
16—1975 Stores			12,884	805	32,196	2,012	39,524	2,470	48,139	3,008	22.3%
13—1976 Stores					14,943	1,149	30,716	2,363	36,257	2,789	18.0%
27—1977 Stores							29,212	1,082	68,988	2,555	
20—1978 Stores									15,785	789	
Totals: Sales	$346,343	$2,771	$388,254	$2,754	$519,395	$3,373	$661,625	$3,655	$793,125	$3,965	
Number of Stores	125		141		154		181(1)		200(1)		

(1) Established Stores are stores which have been open for one year or more. One of the 105 stores was closed in December, 1977, therefore, the pre 1974 Established Store number was reduced to 104 for the Fiscal 1978 computations. A 1977 store was closed in December of 1978 and will thus affect next year's 1977 Stores computations. We ended Fiscal 1977 with 180 stores, and Fiscal 1978 with 199.

(2) Annual average Compound Growth Rates through 1978, from 1974 for the 105 (104) Established Stores. Rates for the 1974 New Stores were computed from their 1975 (first full year) results, the 1975 New Stores from 1976, and the 1976 New Stores from 1977, all through 1978 results.

1974 models over the 1975 and 1976 models, one fact leaps out—19 of the 20 are standard stores built for the function. The majority of the 1975's and 1976's are non-standard takeovers and generally smaller. This presents a classic short-range versus long-range decision. Takeovers with their lower cost, get in the black more quickly, but do not have the long-range growth potential of our more costly standard stores. More about our answer to this later.

In general, new stores will average about $1.5 million in their first year (although store size will cause this average to vary), $2 to 2.5 million in their second year, $3 to 3.5 million in their third year, and then sales should increase between 6% and 10%, annually, thereafter. In fact, we believe that in markets of reasonable size, our larger stores can achieve in excess of $7,500,000 per store, as many of our stores do now.

Sales Per Square Foot Trends: A measure of the sales results of some policy changes may be seen in Table C. Lowe's average sales floor size changed from 5,700 square feet in July, 1970 to the 9,160 average on January 31, 1975, reflecting our 1970 change to larger selling areas in our new stores. Conversely, the subsequent slight decline of average sales floor size in fiscal 1975 and 1976 is the result of opening primarily take-overs which tend to have smaller selling areas. These changes are also reflected in sales per square foot trends, particularly retail sales per square foot. This measure reached a peak of $179 in old fiscal 1973, as our new, larger, standard design stores attracted retail customers in a fairly short period of time during a great climate for retail sales of our products.

In 1974 and in 1975, our total retail sales grew by just 7% and 9%, less than the rate at which we added square footage. Consequently, sales per square foot dropped to $325 and $150 in 1975. During 1977, a recovery began, and in 1978, we posted new all-time highs in sales per square foot. Also in 1977 and in 1978, our average sales floor size began growing again.

Sales Per Square Foot Perspective: Long time followers of Lowe's know that for years we have stressed sales per employee and profit per employee (see page 18) as being more significant than sales per square foot because our people costs are so much larger than our occupancy costs. Also, our sales per square foot have always ranked rather high. For example, the publication of the Home Center Institute in Indianapolis, "The Bottom Line", 1978 edition is an outstanding analysis of operating results of companies in our business. The highest figure of total sales per square foot of selling area reported is $250, with the low being $76. The highest figure for retail sales per square foot is $119. So Lowe's 1978 numbers in Table C look good by comparison.

However, we have come to a new appreciation of the significance of sales per square foot. Its most important function is to measure productivity—not of Lowe's against K-Mart—but of Lowe's of Wilmington against Lowe's of Wilmington last year, and over time and with inflation in mind. And to measure the sales and margin productivity per square foot of pre-finished wall paneling against power tools within the same store.

As a result of our reorganization, our Merchandising Department is now able to wield this powerful discipline and make more appropriate either-or product investment and display allocation decisions. Also, based upon the successful results of our new North Wilkesboro prototype store with a 15,000 foot showroom (itself a spin-off from our Marietta, Georgia store), the success of the move of many of our old stores from a cramped takeover to a new standard in a better location, plus a correlation analysis between sales floor size, households in the market, and retail and pro sales per square foot per store, we have made the following important growth and expansion decisions:

- All new standard stores will have a minimum sales floor area of 13,250 square feet, and a wooden wall in the rear for future expansion.
- On takeovers, because their volume plateaus so quickly when the sales floor and total facility is too small, we shall raise our minimum property standards, or shorten the term of the initial lease, or both.
- We shall commission an outside study of our new prototype store by experts in store planning, graphic design, traffic flow, and store environment, to seek enhancement of our internally-developed plans.
- Our Real Estate department is preparing cost estimates to "retrofit" the 80 old standards with the essentials of the North Wilkesboro sales floor.

We believe these decisions represent the best investment we can make in the future growth and profitability of Lowe's.

Our Conclusion: Lowe's resources of time, energy, and growth investment funds can still be best invested in expanding our company with additional retail stores, but we must maintain our established stores' momentum.

The National Market: Where do we go from here? First, we would rather be a highly successful regional company than a mediocre grab-bag national concern. However, there are about 77,000,000 households in the nation, and the average Lowe's store serves 53,300. Thus, between 1,400 and 1,500 Lowe's stores are now needed to serve the United States. The 19 states where Lowe's presently operates, in the map on page 33, contain about 37,100,000 households, enough to support 700 Lowe's stores. So almost half the national market is fairly close to our present operating area, and geographically contiguous.

Lowe's Sales Floor Size and Productivity Trends

C

	1 Stores Open at End of Year	2 Weighted Average Stores Open During Year(1)	3 Total Sales Floor Square Footage End of Year	4 Average Sales Floor Size End of Year	5 Weighted Average Sales Floor Square Footage During Year(2)	6 Total Sales (000)	7 Retail Sales (000)	8 Total Sales Per Square Foot(3)	9 Retail Sales Per Square Foot(4)
1974	125	115.8	1,145,000	9,160	1,060,728	$346,343	$164,326	$327	$155
1975	141	131.3	1,281,000	9,085	1,192,861	388,254	178,353	325	150
1976	154	148.0	1,383,000	8,981	1,329,188	519,395	210,938	391	159
1977	180	168.3	1,619,000	8,994	1,513,690	661,625	250,012	437	165
1978	199	185.8	1,817,000	9,130	1,696,354	793,125	324,142	468	191

(1) Stores open at beginning of year; plus New Stores opened during year computed by adding total New Store Months and dividing by 12.
(2) Column 2 x Column 4. (3) Column 6 ÷ by Column 5. (4) Column 7 ÷ by Column 5.

Performance Measurements

Profitability Analysis: How does inventory turnover affect earnings per share? What does return on sales have to do with return on shareholders' equity? How do the policies and performance of finance, sales, operations, marketing, and expansion really interact? To answer these questions, a framework formula is needed, one that can give arithmetically measurable results, plus insight into the relative importance of the causative factors. We have used a formula like this for Lowe's for several years, and part of it is shown in Table A. Incidentally, the title "Strategic Profit Model" was coined by a brilliant and well-spoken disciple of Return on Investment, Professor Bert R. McCammon, Jr. of the University of Oklahoma. The bottom line, Return on Shareholders' Equity, may be derived by dividing Net Earnings by Shareholders' Equity. But this approach provides no understanding of why and how this return was attained. It is better to "take it from the top" and think through each major variable. For a full discussion of this formula, its variables, and results, see our 21 Year Review of Performance on the inside back cover fold-out.

Many people prefer to express return on equity as a percentage of the average of the beginning and ending equity. It is a more "conservative" computation. Our 1978 return on average equity was 18.05%. Using average totals may be more accurate, but beginning totals are more useful. The reason is aligned with the concept of profitability accounting as opposed to custodial, or hindsight accounting. We use beginning totals in Table A and in our 21 Year Review.

Beginning totals also allow us to chart objectives at the start of each period. We know now that fiscal 1979's beginning assets are $269,695,000. $910,000,000 in sales will require $3.37 in asset turnover.

Strategic Profit Model — Lowe's 1978 Results **A**

ASSET TURNOVER: (Annual Sales divided by Beginning Total Assets)	2.94
TIMES	
RETURN ON SALES: (Net Earnings divided by Annual Sales)	2.99%
EQUALS	
RETURN ON ASSETS: (Net Earnings divided by Beginning Total Assets)	9.82%
TIMES	
FINANCIAL LEVERAGE: (Beginning Total Assets divided by Shareholders' Equity)	1.98
EQUALS	
RETURN ON SHAREHOLDERS' EQUITY: (Net Earnings divided by Shareholders' Equity)	19.42%

A 3.10% return on sales would give return on assets of 10.45%. The leverage factor is already set at 1.92, which would give us a LIFO return on equity of 20%. By using monthly and quarterly rates, we can check our progress during the year while action can still be taken to affect results. An understanding of this framework and these basic variables will reveal how inventory turnover can decrease while asset turnover increases, or vice-versa. Our objective is not to try to maximize a single factor at the expense of the others, but to manage each of them to optimize growth and return on shareholders' equity.

Performance Comparisons: Table B also shows performance measurements of three groups: the nation's top three retailers (non-food); the two largest companies with major chain building material retailing activity; and Lowe's! (Note that in Table B, due to source limitations, we had to use ending asset and equity totals which we believe understates the real performance of all six companies.) Many conclusions may be drawn from this study. Sears' and Evans' return on sales, and K-Mart's continued across the board good performance prove that giant companies can be nimble performers. Lowe's is small by comparison and growing more rapidly than some of them, but growth is not diluting Lowe's performance. During these years, Lowe's sales per employee reached a new record high, and net profit per employee maintained clear superiority over the other companies shown. This reinforces management's decision not to try to be all things to all people, not to chase each grass-is-greener prospect, but to invest our resources of time, energy, experience, and growth investment funds into Lowe's stores as our basic growth and expansion policy.

Strategic Profit Model, and Sales and Profits per Employee Comparisons **B**

	Total Sales (000,000)	Total Profits (000,000)	Total Assets (000,000)	Total Equity (000,000)	Asset Turnover	X	Return on Sales (%)	=	Return on Assets (%)	X	Leverage Factor	=	Return on Equity (%)	Number of Employees	Sales Per Employee	Profit Per Employee
	(1)	(1)	(1)	(1)									(2)	(3)	(4)	(5)
Sears	$17,224	$ 838	$14,746	$6,524	1.17		4.87		5.68		2.26		12.8	430,200	$ 40,000	$1,948
K-Mart	10,064	303	3,428	1,688	2.94		3.01		8.84		2.03		18.0	206,000	48,900	1,471
Penney	9,369	295	4,106	2,167	2.28		3.15		7.18		1.89		13.6	193,000	48,500	1,528
Wickes	1,488	30	582	208	2.56		2.02		5.15		2.80		14.4	15,207	97,800	1,973
Evans	919	42	571	261	1.61		4.57		7.36		2.19		16.1	14,000	65,600	3,000
Lowe's	$ 793	$23.7	$ 270	$ 141	2.94		2.99		8.79		1.92		16.8	5,809	$136,500	$4,084

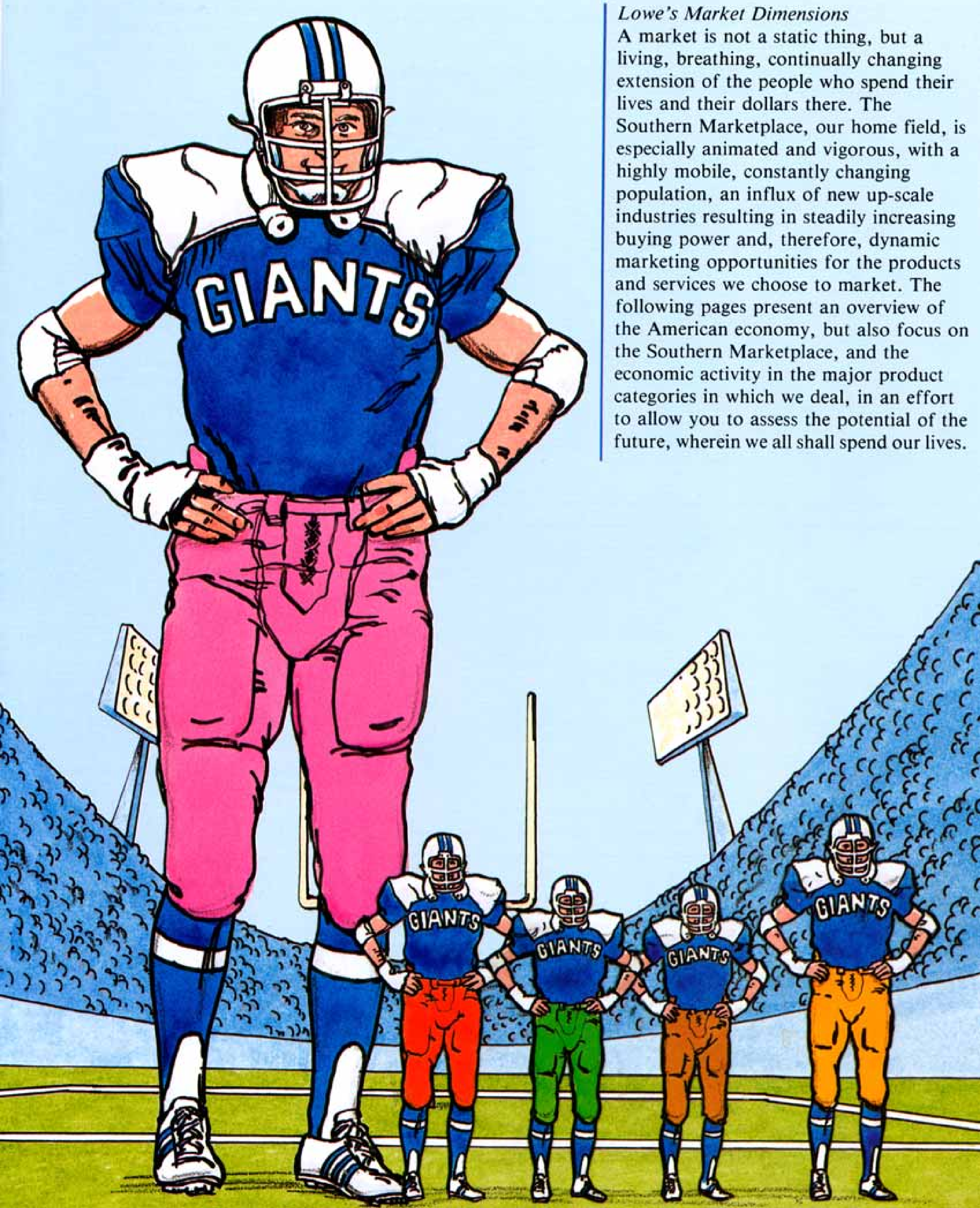
Sources of figures for other companies: Reprinted from the 1978 FORTUNE Directory by special permission; © 1978 Time Inc. (Figures may vary slightly due to rounding)

(1) Latest year ending figures.
(2) Return on Ending Assets and Ending Shareholders' Equity.
(3) Year-End Total.
(4) Total sales for year ÷ number of employees to nearest $100.
(5) Total earnings after taxes ÷ number of employees.

Marketing Research

Lowe's Market Dimensions

A market is not a static thing, but a living, breathing, continually changing extension of the people who spend their lives and their dollars there. The Southern Marketplace, our home field, is especially animated and vigorous, with a highly mobile, constantly changing population, an influx of new up-scale industries resulting in steadily increasing buying power and, therefore, dynamic marketing opportunities for the products and services we choose to market. The following pages present an overview of the American economy, but also focus on the Southern Marketplace, and the economic activity in the major product categories in which we deal, in an effort to allow you to assess the potential of the future, wherein we all shall spend our lives.



Marketing Research/*Population and Growth*

U.S. Population & Households 1

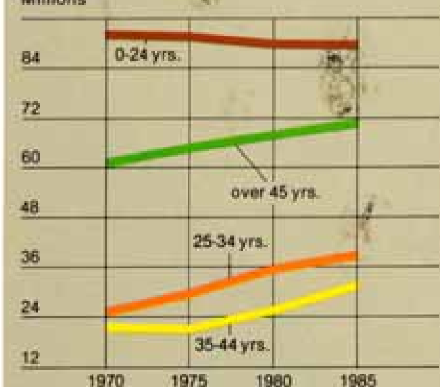
Millions

Population ■ Households

Sources: National Consumer Finance Association *1978 Finance Facts Yearbook* & Editor and Publisher *Market Guide*

U.S. Population Trends 2

Millions



Source:
U.S. Department of Commerce, Bureau of the Census

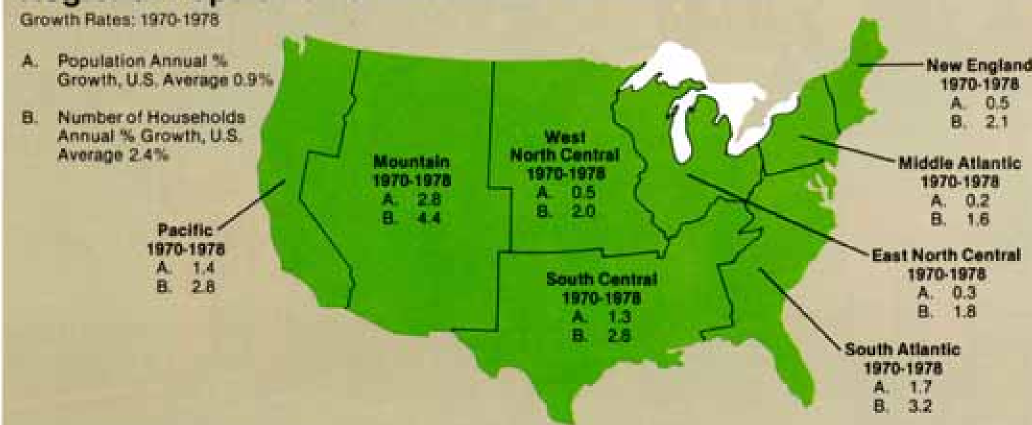
Regional Demographics, 1978 3

	Population (000,000)	Households (000,000)	Age Groups (% of total of each group) 0-24	25-34	35-49	50 & over
New England	12.3	4.3	5%	6%	6%	6%
Middle Atlantic	37.6	13.4	16%	16%	18%	19%
NORTHEAST	50.0	17.7	22%	22%	24%	25%
South Atlantic	35.0	12.2	16%	16%	16%	16%
East So. Central	13.9	4.7	7%	6%	6%	6%
West So. Central	21.8	7.6	10%	10%	10%	9%
SOUTH	70.6	24.4	33%	32%	32%	32%
Mountain	10.4	3.5	5%	5%	5%	4%
Pacific	29.6	10.8	13%	14%	14%	13%
WEST	39.9	14.4	19%	19%	18%	17%
West No. Central	17.0	6.0	8%	8%	7%	8%
East No. Central	41.4	14.3	19%	19%	19%	18%
MIDWEST	58.4	20.3	27%	26%	26%	27%
United States	218.9	76.8	*42%	*15%	*16%	*26%

*Per cent of total U.S. Population that falls in each age group
Sources: Editor and Publisher, S & MM *Survey of Buying Power*

Regional Population & Household Growth Rates 4

Growth Rates: 1970-1978



Source: Editor & Publisher *Market Guide*

Population and Households: Chart 1 is a census and projection of population and households through 1985. Households constitute the primary market for housing and durable goods, the two areas in which we concentrate our merchandising efforts. Growth in the numbers of households in the past eight years has surpassed the 20% figure originally projected for the decade, resulting in a 25% projected increase in formation of households from 1970-1980. The average number of persons per household has declined from 3.14 in 1970 to an estimated 2.83 in 1978, reflecting the rising trend in the number of single-person and two-person-only households.

Population Trends: Persons aged 25-44 years are considered to be our primary target customers, since these are the principal years for household formation and home ownership. As Chart 2 indicates, their numbers will continue to increase through 1985. Over the past decade, this group has become consistently better educated and more affluent, a trend which should continue through the 80's.

Regional Demographics: 184 of the 199 Lowe's stores are located in the Southern region. Of the 184 in the South, 130 are in the South Atlantic. As shown in Chart 3, 32% of the total population and households of the United States reside in the Southern region. Of this 32%, approximately one-half live in the South Atlantic region. 32% of all persons aged 24-49 years, and 33% of persons 0-24 live in the South, confirming a continuing large market for home-oriented products.

Regional Population and Household Growth Rates: Chart 4 gives national and regional growth rates of population and households. The household growth rate is significantly greater than the population growth rate, reflecting the marked increase in the number of one-person households, which currently comprises approximately 21% of total households. Female heads of household are also becoming a greater force in the market place, accounting for approximately 25% of total heads of household. As is shown in Chart 4, the annual growth rates for both population and households are significantly greater for the South Atlantic and Mountain regions than for the rest of the nation, reflecting not a higher birth rate, but the extensive migration into these areas from other regions of the United States.

Gross National Product: In 1978, the GNP, the best known economic indicator of the United States, passed the 2 trillion dollar mark. Personal Consumption Expenditures, representing total spending for services, durable and non-durable goods, showed a higher annual growth rate than did the GNP for the years 1970-1978, and was approximately 64% of Gross National Product in 1978. The categories in PCE showing the highest annual growth rate for the eight year period were expenditures for housing and transportation, with growth rates of 11.5% and 12.7%, respectively. Personal Consumption Expenditures has represented 92% of the Disposable Personal Income over the past three years, both as a result of spiralling inflation and the American quest for an ever-higher standard of living.

Regional Household Buying Power: 1978 Effective Buying Income increased 6% over the 1977 EBI, with median household EBI showing an even greater gain (9%). This increasing household income is in part due to the increased participation of women in the labor force. Some 40 million women were employed in 1977, comprising 40% of the total labor force. Of these working women, 57% were married and 48% had school-age children. One of every two women over 18 years of age is employed outside the home and these numbers are expected to increase. This trend provides a growing market for labor-saving appliances and home decoration items, and encourages a supermarket approach to building supply retailing.

The South, with 32% of the population, also represents the largest segment of the total EBI dollars. The median household EBI was somewhat lower than the national average, but manifests an annual growth rate comparable to the national median and higher than that of the Northeast region.

Consumer Spending: In 1970, Americans spent 21.4% of total Personal Consumption Expenditure dollars on housing and household operation for a total of $132 billion dollars. Another 5.9%, or $37 billion, was spent on furniture and household goods. $85 billion dollars worth of durable goods was bought, for 13.7% of the Total PCE of $618.8 billion. Prevailing ecomonic trends lead us to forecast a $1.5 trillion PCE for 1980, with durable goods expenditures at 14.2% of the total and the percentage of non-durables down. Housing and housing operation will have increased to 22.3%, for a projected total of $353 billion.

Gross National Product 5

Personal Consumption Expenditures & Disposable Personal Income

Billions of Dollars

GNP ■ Disposable Personal Income ■ Personal Consumption Expenditures

*Compound Growth Rate 1970-78

Source: *Economic Indicators*

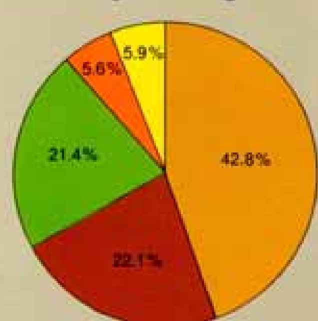
Regional Household Buying Power 6

	1978 Total EBI* (000,000)	(1977) Median HH EBI	Households By Effective Buying Income Group (1977) Under $8,000 (000)	$8,000-9,999 (000)	$10,000-14,999 (000)	$15,000-24,999 (000)	$25,000 & over (000)
New England	$ 80.0	$ 15,846	913.2	266.7	779.9	1,423.3	822.5
Middle Atlantic	254.7	15,948	2,909.7	805.5	2,334.7	4,187.2	2,804.3
NORTHEAST	334.7		3,822.9	1,072.2	3,114.6	5,610.5	3,626.8
South Atlantic	207.5	13,602	3,368.8	909.6	2,295.4	3,379.0	1,934.8
East So. Central	73.0	12,301	1,572.0	348.8	843.2	1,213.6	655.1
West So. Central	129.1	13,536	2,239.9	522.4	1,309.5	2,025.3	1,288.5
SOUTH	409.6		7,180.7	1,781.0	4,448.1	6,617.9	3,878.4
Mountain	60.2	14,035	919.4	252.7	695.9	1,055.0	542.2
Pacific	203.3	15,588	2,571.3	680.1	1,893.3	3,367.8	2,235.8
WEST	263.5		3,490.7	932.8	2,589.2	4,422.8	2,778.0
West No. Central	102.2	14,114	1,650.4	407.2	1,102.8	1,792.6	966.4
East No. Central	275.5	16,902	2,951.9	754.1	2,273.5	4,722.2	3,248.2
MIDWEST	377.8		4,602.3	1,161.3	3,376.3	6,514.8	4,214.6
United States	$1,385.6	$ 15,016	25%	7%	18%	31%	19%

*Effective Buying Income equals income minus taxes, levies, etc.

Sources: Editor & Publisher, S&MM *Survey of Buying Power*

Consumer Spending 7



1970

	% of Total	Billions of Dollars
Durable Goods	13.7%	$ 85
Furniture & HH Equipment	5.9%	37
Automotive	5.6%	35
Services	43.5%	269
Housing & HH Operation	21.4%	132
Other Consumer Services	22.1%	137
Non-durable Goods	42.8%	265

Total Consumption Expenditures—$618.8 billion

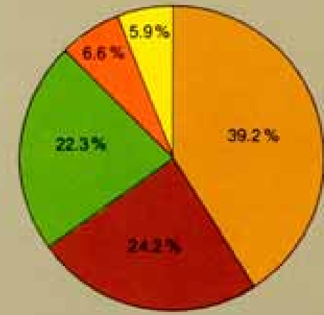
Source: Department of Commerce

1980 Forecast

	% of Total	Billions of Dollars
Durable Goods	14.2%	$224
Furniture & HH Equipment	5.9%	93
Automotive	6.6%	104
Services	46.5%	735
Housing & HH Operation	22.3%	353
Other Consumer Services	24.2%	382
Non-durable Goods	39.2%	620

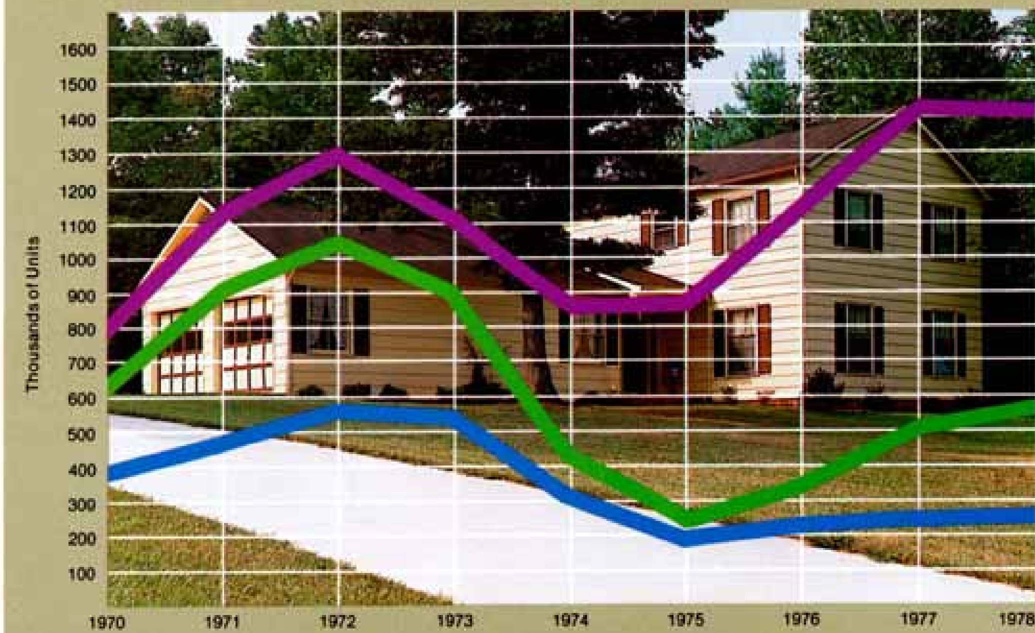
Total Consumption Expenditures—$1581 billion

Source: Lowe's estimate using Department of Commerce figures



Marketing Research/Housing and Construction

Housing: The Changing Mix 8



■ Single Family Starts ■ Multi-Family Starts ■ Mobile Homes (factory shipments)

Sources: *Construction Review*, *Manufactured Housing Institute*

Construction Spending Components 9

Billions of Dollars

	1970	1974	1975	1976	1977	1978	77-78 Chg.
A. Government	$28.1	$ 38.3	$ 40.9	$ 38.3	$ 37.8	$ 44.8	+19%
B. New Housing	24.3	40.6	34.4	47.3	65.7	75.5	+15%
C. Private Additions and Alterations*	7.6	9.9	12.0	13.3	15.3	17.2	+12%
D. Commercial and Industrial	16.3	23.8	20.8	19.9	22.5	29.0	+29%
E. Other	18.6	25.9	26.4	30.0	31.3	35.1	+12%
Total	$94.9	$138.5	$134.5	$148.8	$172.6	$201.6	+17%

*Includes non-residential housekeeping
Source: *Economic Indicators*

Regional Housing Starts & Permits 10

Thousands

Map indicates each region's percent of total

	U.S. Starts	U.S. Permits	Northeast Starts	Northeast Permits	North Central Starts	North Central Permits	West Starts	West Permits	South Starts	South Permits
1971	2085	1981	271	308	440	430	490	478	884	737
1972	2379	2239	334	338	445	443	532	543	1068	915
1973	2058	1830	277	273	440	364	429	425	899	768
1974	1353	1088	183	166	317	244	285	281	553	397
1975	1171	949	149	130	294	243	275	278	442	298
1976	1548	1303	169	152	400	326	400	418	569	406
1977	1990	1692	202	182	465	403	538	545	783	563
1978	2023	1680P	200	187P	451	372P	545	538P	823	583P

P = Preliminary figures, private housing permits only
Sources: *Construction Review*, *Construction Reports*

The Housing Mix: As shown in Chart 8, housing starts appear to have leveled at approximately the 2 million mark in 1977 and 1978, steady compared to the gyrations of the past. Single-family starts at 1.4 million were slightly ahead of the strong numbers that prevailed in the years prior to 1973. Multi-family starts and mobile home shipments have not returned to pre-1974 levels, but multi-family has shown healthy increases since 1975. While single-family starts continue to be most important to Lowe's sales, we are becoming increasingly involved in the multi-housing sector through the efforts of our Homestead Department.

Forecasts for 1979 vary a great deal at this point as high interest rates, inflation, and rising home prices place constraints on the purchasing power of prospective home buyers. Prevailing conditions seem to point to a decline in housing starts, but many experts doubt that this downturn will resemble 1973-1975, since demand continues, and there is widespread belief that inflation makes housing the best major investment available to the average family.

Construction Spending Components: In 1978, expenditures for construction reached a record $200 billion dollars. New housing accounted for the largest percentage of total at 38%, followed by government spending at 22%. While private housing starts were up only about 2% over 1977, expenditures increased by 15%, reflecting both inflation and increased demand for larger homes equipped with more amenities. Total construction dollars increased a healthy 17% from 1977 to 1978, and equalled 9.6% of the total 1978 GNP.

Regional Housing Activity: U.S. housing starts in 1978 reached the 2 million mark for the first time since 1973. Total starts were up about 2% over 1977 figures, with the South showing the largest increase at 5% and representing 41% of the total housing activity in 1978. The level of starts in the Southern region has not returned to that experienced before 1974, when Southern housing starts were inflated by the heavy activity in multi-family in 1971-1973. Single-family starts for 1977 and 1978 in the South were once again comparable to pre-1974 figures, but multi-housing only represented some 35% of the total. Preliminary permit figures for 1978 show permits down slightly nationwide, but up in the Northeast and South. Permits in Lowe's marketing areas began to slip below their 1977 levels in the second quarter, and continued to decline in the third and fourth.

Trends in Prices: In Chart 11, price indices for key sectors of the economy and construction components are presented. Prices for food and all construction materials rose faster than the leading indicator, the Consumer Price Index. Millwork, gypsum and asphalt roofing lead the list with price increases for 1979, with lumber, brick and plywood also showing significant increases.

New Housing Costs: As shown in Chart 12, the median sales price of the new single-family home increased 14% over the median price for 1977, showing an 11.4% compound growth rate for the years 1970-1978. This dramatic rise in prices is only partly due to inflation; Americans are also demanding larger homes with more luxuries than did homebuyers in 1970 despite the decrease in size of the average household since 1970. The median home in 1978 contains 16.5% more floor area than did the 1970 median home. 70% of new 1978 homes have two or more bathrooms and over half are air-conditioned, compared with 48% with multiple bathrooms and 34% with air conditioning in 1970. The trend toward larger homes with more conveniences is spurred on by the steady increase in income dollars per household and the hedge against inflation that homeownership represents, and this demand trend is evidently little affected by periods of economic slowdown.

Remodeling Expenditures: Americans spent $37.5 billion dollars on renovation and remodeling of existing homes last year, almost 20% more than in 1977. Approximately one-half of that amount is estimated to be the do-it-yourself trade, which includes costs for materials only. The compound growth rate for total remodeling dollars for 1970-78 is 12.4%, somewhat comparable to the high annual growth rate for existing home sales, since owners of existing homes generally remodel during the years immediately following purchase.

Existing Home Sales: Chart 14 depicts the rather brisk sales of previously owned homes, which increased from 1.6 million units in 1970 to 3.9 million in 1978, with an annual growth rate of 11.7%, and with sales of over $200 billion dollars in 1978. The South represented 42% of the total units sold in 1978, with a dollar volume of almost $84 million, a 36% increase in sales and a 19% increase in units sold since 1977. Existing home sales and the accompanying remodeling expenditures represent a steadily increasing market for the South and for Lowe's.

Trends, Construction Costs & Prices — 11

Index: 1967 = 100

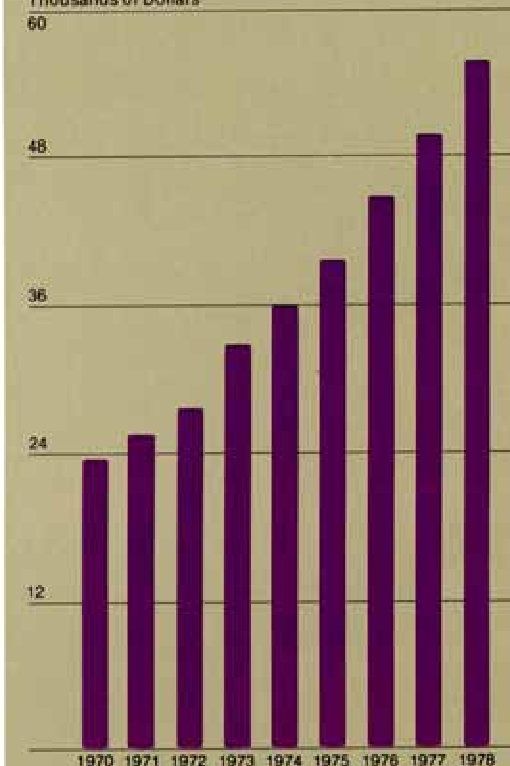
	Consumer Price Index	All Durable Goods	Food	All Construction	Southern Pine	Plywood
1970	116.3	111.8	114.9	112.5	114.5	108.5
1974	147.7	130.6	161.7	160.9	184.5	161.1
1975	161.2	145.5	175.4	174.0	175.3	161.2
1976	170.5	154.3	180.8	187.7	217.4	187.0
1977	181.5	163.2	192.2	204.9	262.3	212.0
1978	195.4	173.9	211.4	228.2	304.6	235.6

	Millwork	Gypsum	Roofing Asphalt	Plumbing	Brick	Hardware
1970	116.0	100.0	101.8	112.5	112.2	112.9
1974	157.1	128.5	189.9	149.1	143.5	141.2
1975	160.4	130.8	217.9	162.3	160.5	158.8
1976	176.9	137.3	231.3	174.1	177.0	164.1
1977	193.6	183.5	246.4	186.6	204.0	175.7
1978	235.4	229.1	288.6	199.1	234.3	187.8

Sources: *Economic Indicators, Construction Review*

Cost of New Homes — 12

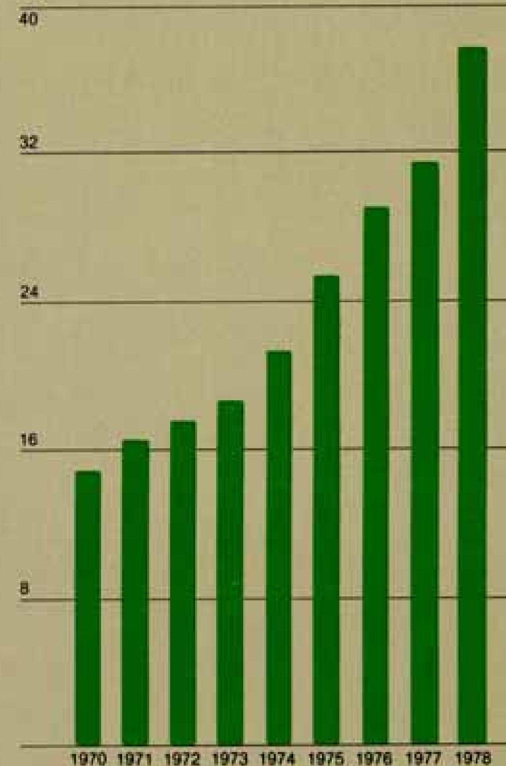
Single Family, Median Sales Price
Thousands of Dollars



Source: *Construction Reports*

Remodeling Expenditures — 13

Billions of Dollars



Source: Residential Alterations and Repairs, *Construction Reports*

Existing Home Sales* — 14

	U.S. Units Sold (000)	U.S. Dollar Volume (billions)	Northeast Units Sold (000)	North Central Units Sold (000)	West Units Sold (000)	South Units Sold (000)	South % of U.S. Total
1970	1,612	$ 41.4	251	501	292	568	35%
1971	2,018	56.5	311	538	389	735	36%
1972	2,252	67.8	361	630	473	788	35%
1973	2,334	76.8	367	674	446	847	36%
1974	2,272	81.3	354	645	434	839	37%
1975	2,452	95.6	377	685	491	899	37%
1976	3,002	126.7	458	843	591	1,110	37%
1977	3,572	171.1	549	1,035	615	1,372	38%
1978	3,905	216.7	566	1,056	648	1,636	42%
1970-78 CGR**	11.7%	23%	10.7%	9.8%	10.5%	14.2%	

*Reflective of sales of previously owned homes, does not include new housing
**Compound Growth Rate
Source: National Association of Realtors®

U.S. Retail Sales

15

Millions of Dollars

	1970	1975	1977	1978	1977-78 % Chg.	1970-78 CGR*
Food	$ 89,793	$138,006	$156,313	$174,458	+ 11.6	8.7%
Eating/Drinking Places	31,463	51,427	63,825	70,083	+ 9.8	10.5%
General Merchandise	49,981	73,761	89,231	99,505	+ 11.5	9.0%
Apparel Group	20,742	31,669	33,527	37,828	+ 12.8	7.8%
Furniture & Appliance Group	17,806	28,114	34,499	37,430	+ 8.5	9.7%
Automotive	63,098	105,288	143,682	163,668	+ 13.9	12.7%
Gasoline Stations	29,340	47,387	56,538	60,884	+ 7.7	9.6%
Drug & Proprietary Stores	13,783	19,412	22,380	25,337	+ 13.2	7.9%
Liquor Stores	8,272	12,169	13,084	13,616	+ 4.1	6.4%
Lumber, Bldg. Materials, Hardware & Mobile Homes	17,615	26,262	37,958	44,125	+ 16.2	12.2%
Durable Goods	109,889	178,887	238,815	277,916	+ 16.4	12.3%
Non-durable Goods	261,193	401,558	469,529	520,902	+ 10.9	9.0%
United States	$371,082	$580,445	$708,344	$798,818	+ 12.8	10.1%

*Compound Growth Rate
Source: Department of Commerce *Retail Trade*

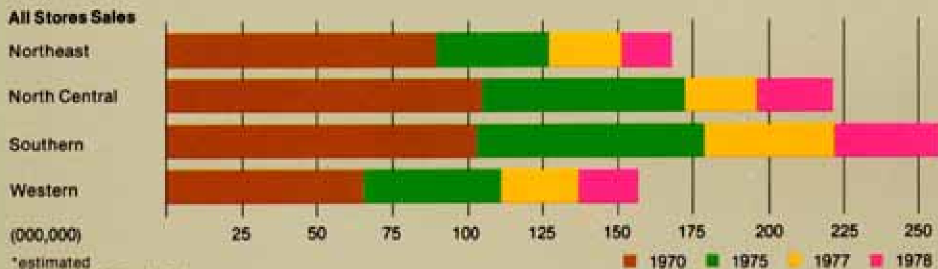
Regional Retail Sales

16

Millions of Dollars

	1970	1975	1977	1978	1977-78 % Chg.	1970-78 CGR**
Northeast Region						
All Stores	$ 90,029	$126,343	$151,549	$165,660	+ 9.3	7.9%
All Durables	24,207	33,463	43,740	48,996	+ 12.0	9.2%
GAF Group	26,906	33,844	34,996	37,258	+ 6.5	4.2%
LBH Group	3,364	4,593	5,242	5,484	+ 4.6	6.3%
North Central Region						
All Stores	$105,519	$170,557	$195,620	$221,071	+ 13.0	9.7%
All Durables	32,272	54,241	65,961	78,868	+ 19.6	11.8%
GAF Group	28,137	41,809	42,785	48,099	+ 12.4	7.0%
LBH Group	7,687	12,852	11,996	13,204	+ 10.1	7.0%
Southern Region						
All Stores	$103,524	$177,239	$223,774	$255,599	+ 14.2	12.0%
All Durables	32,521	58,666	80,488	93,716	+ 16.4	14.1%
GAF Group	27,725	45,204	49,279	54,517	+ 10.6	8.8%
LBH Group	5,374	10,636	12,926	15,559	+ 20.4	14.2%
Western Region						
All Stores	$ 65,499	$110,284	$137,401	$156,488	+ 13.9	11.5%
All Durables	20,694	34,355	48,626	56,336	+ 15.9	13.3%
GAF Group	17,312	27,417	30,197	34,889	+ 15.5	9.2%
LBH Group	3,242	6,123*	7,794	9,878	+ 26.7	14.9%

All Stores Sales



*estimated
**Compound Growth Rate
Note: Regional figures for 1970 and 1975 are unrevised and include farm equipment in LBH.
Source: Department of Commerce *Retail Trade*

Pertinent Retail Category Sales

17

Millions of Dollars

	1970	1975	1977	1978	1970-78 CGR**
1. Lumber, Building Materials, Hardware, Mobile Home Group	$17,615	$26,262	$37,958	$44,125	12.2%
*A. Lumber Yards, Building Material Dealers, Paint, Plumbing and Electrical Stores	11,248	17,793	26,706	29,991	13.0%
*B. Hardware Stores	3,228	4,935	6,431	6,881	9.9%
C. Mobile Homes & Other	3,139	3,534	4,821	7,253	11.0%
2. Furniture & Appliance Group	$17,806	$28,114	$34,499	$37,430	9.7%
A. Furniture, Home Furnishings Stores	10,578	16,740	20,843	22,719	10.0%
*B. Household Appliance, TV, Radio	6,147	8,898	10,654	10,991	7.6%
C. Other	1,081	2,476	3,002	3,720	16.7%
*Totals 1A, 1B, 2B:	$20,623	$31,626	$43,791	$47,863	11.1%

**Compound Growth Rate
Source: Department of Commerce *Retail Trade*

United States Retail Sales: Total retail sales for the nation approached $800 billion last year, with Food and Automotive sales receiving the greatest percent of total. Sales were up 12.8% over 1977, with an annual growth rate of 10.1%, and were an impressive 60% of Total Personal Consumption Expenditures. Due to our unique product mix, it is difficult to fit Lowe's into any one of the store groups or categories shown in Chart 15. We have defined ourselves as a combination lumber yard, building material supplier, appliance and hardware dealer and hard goods discounter. We deal in Durable Goods and the store categories most indicative of the market we serve are the Lumber, Building Materials, Hardware Group and the Furniture and Appliance Group.

Durable Goods and Lumber, Building Materials and Hardware (LBH) experienced higher growth rates from 1970-1978 than did any other retail group except Automotive, and surpassed all store groups in sales increases in 1978. LBH sales accounted for 16% of all Durable Goods and 5.5% of total retail sales. Furniture and Appliance sales were up 8.5 % over 1977 and experienced an annual growth rate slightly below that of total retail sales.

Regional Trends: Shown in Chart 16 are sales of selected store groups by region. Here the South's impressive growth in retail sales is vividly depicted. With less than 30% of the nation's effective Buying Income, the South is nonetheless responsible for 32% of total retail sales and 34% of all durable goods dollars. Even more important to Lowe's is the fact that 35% of all LBH sales in 1978 occurred in the South. The annual growth rates for LBH in the Southern region were surpassed only by the growth of the LBH group in the Western region; however, LBH sales in the Western region represented only 22% of the total 1978 LBH sales in the United States.

Pertinent Retail Groups: The two Store Groups most closely resembling Lowe's product mix are shown in Chart 17. In 1977, the category LBH was redefined by the Commerce Department to more closely measure the actual LBH market, by the removal of the category Farm Equipment and the inclusion of Mobile Home Sales. Lowe's does not really compete with full-line furniture stores or mobile home dealers; therefore 1A, 1B, and 2B are the major categories most relevant to Lowe's. Sales for this specialized group showed a 9% increase in sales from 1977 and an annual growth rate of 11.1%.

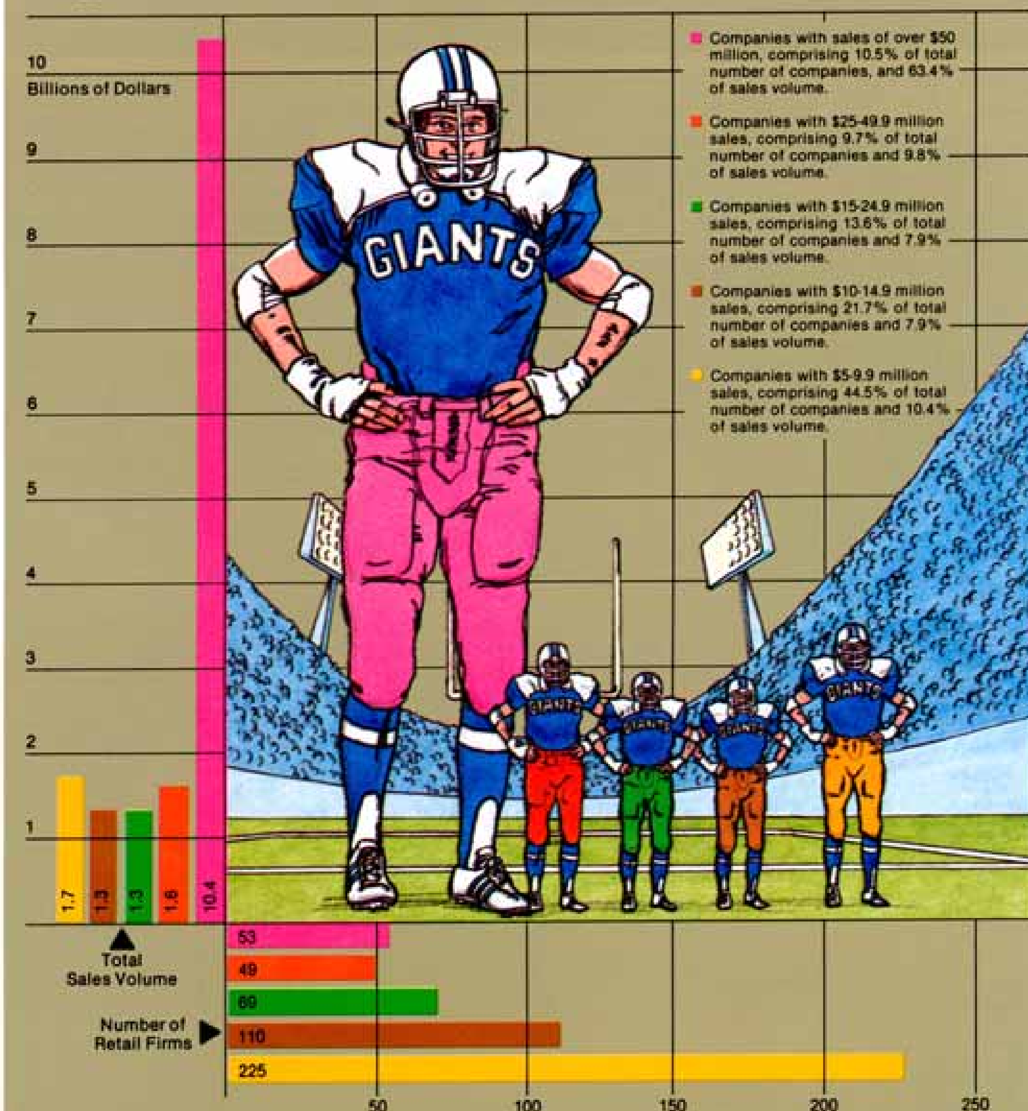
Fragmentation: In the past, we have discussed our competition in passing, and stressed the fact that our competitors range from national home center and other chains to local lumber yards and hardware stores. According to a 1978 study by *Building Supply News,* there are only 506 building supply retailers with 1978 sales of $5 million or more. These retail giants had a total sales volume of $16.4 billion in 1978, approximately 37% of the total U.S. sales in LBH. Leading the list are Wickes, Sears, Lowe's and K-Mart, with combined sales of over $3.5 billion. It is interesting to note that the 53 top firms (those with over $50 million sales totals for 1978), represent only 10% of the total number of companies, but are responsible for over 63% of the sales volume generated by the 506 giant retailers, and 24% of the 1978 national LBH sales.

Among the giant retailers are 156 single-store companies, further proof that the building supply business is a highly diversified, fragmented and competitive market.

Growth of the Chains: A sales history of the twenty-five largest building supply retail chains appears in Chart 19, along with comparable expenditures and growth rates of total U.S. LBH sales minus Mobile Homes. We divided the twenty-five chains into two groups, according to dollar volume of sales, to determine the impact and growth rate of the top half, including Lowe's, compared with the bottom half. The theory that small chains grow faster than large chains does not hold true in this comparison. While the total group sales showed a higher compound growth rate than did national sales of LBH, and represented 14% of the total LBH sales in 1978, the growth rate in sales and share of market was greater for the top twelve than for the remaining chains. Another interesting comparison is made when Lowe's sales are removed from the top tier; growth rate falls to 15.4% and share of market for 1978 to 8.4%. While Lowe's is at present a regional and not a national concern, our impact is felt on a national level due to our volume sales figures and growth record.

Market Penetration: Chart 20 is an interesting look at our impact in the Southern market place. In the period from 1972 to 1978, our annual growth in sales was almost twice that of the South's LBH for the same period of time. Our market share increased from approximately 3% to 5% in just six years.

Fragmentation of the Competition 18



The Growth of the Chains 19

The 25 Largest Building Supply Retailers

Millions of Dollars

	1972	1975	1978 est.	1972-78 CGR*
Lumber, Building Materials, Hardware Sales—U.S.	$18,820	$22,728	$36,872	11.8%
Sales of the top twelve building supply giants	$ 1,538	$ 2,292	$ 3,881	16.7%
% of total LBH	8.2%	10.1%	10.5%	
Sales of remaining thirteen giants	$ 546	$ 791	$ 1,298	15.5%
% of total LBH	2.9%	3.5%	3.5%	

*Compound Growth Rate

Sources: U.S. Department of Commerce Retail Trade and Frost & Sullivan

The Penetration of Lowe's 20

Millions of Dollars

	1972	1975	1978	1972-78 CGR†
Annual Sales of Lumber, Building Materials, Hardware—Southern Region*	$8,188	$10,636	$15,559**	11.3%
Lowe's Annual Sales***	$ 235	$ 388	$ 793	22.4%
Lowe's Sales as % of total LBH in South	2.9%	3.6%	5.1%	

*LBH figures for 1972 & 1975 are unrevised and include farm equipment
**LBH figures for 1978 also include mobile home sales.
***1972 Lowe's annual sales are based on fiscal year ending 7-31-72
†Compound Growth Rate
Source: Department of Commerce *Retail Trade*

Lowe's Newest Store

John Walker — "A glimpse of the future" is what Managing Director John Walker sees when he looks at Lowe's new North Wilkesboro store. He sees this store's design as Lowe's best response yet to today's shopper needs and a challenge for further progress.

During the past ten years, emphasis has been placed on increasing retail sales for the company and on improving market penetration and services rendered to the do-it-yourselfer. The annual national sales volume for this market has slowly risen until it now virtually equals the "new start" housing dollar volume for the year. And much of the success of the North Wilkesboro store is due to the size, design, and environment of the sales floor. Its 15,000 square foot display area has the space and logical floor plan to properly display more merchandise to our customers and to identify it in a uniform manner, making it easier than before for our customers to find a particular product and the necessary related items.
(continued on page 28)

Pete Kulynych — In 1956, Lowe's owner Carl Buchan walked into Pete Kulynych's office, threw a deed onto the desk and said, "I just bought four acres — go build me a store!" How times have changed! In 1976, when planning for Lowe's new North Wilkesboro store began, the number of basic considerations was enormous. Mr. Kulynych had to consider many possible locations . . . the proper traffic flow . . . the most efficient store size . . . proper storage facilities, both inside and out . . . . proper lighting . . . security . . . and a host of other matters. When asked the importance of each of these considerations, Managing Director Kulynych started with the store location.

The North Wilkesboro store is located in downtown North Wilkesboro, in a high traffic area, where it is easily seen and easily reached. The site is also part of downtown's urban redevelopment area, so — as well as being easily accessible — the store has really
(continued on page 32)

John Walker (continued)

The new, more "up-town" displays, with enhanced product information on every product allow the customer to make a purchase decision many times without consulting a salesperson, thus making shopping and buying faster and easier. These same factors also play a large part in the realized increase in "impulse buying." Another boon to the Lowe's customer is the availability of shopping carts, both regular "grocery" carts, and newly designed "Go-Karts," commissioned for Lowe's by Rome Christie and Ed Greene, which are ideal, respectively, for conveying smaller products, or paneling and studs to the Express Checkout and then right out the front door. That Express Checkout, positioned directly in front of the entrance, is another big help in giving the customer faster service. He merely picks up the items he needs, puts them in the cart, and takes them to the Express Checkout, making buying as easy at Lowe's as at a supermarket! (Or easier.) This is, according to Mr. Walker, the single most overdue, and most significant aspect of the new Lowe's store design: that our customers can select their purchases, pay for them, and then take them out the front door to their car. They don't have to drive around to the back of the store, to the warehouse loading dock, just to pick up a small purchase, as was our previous system.

And now, we come to the "glimpse of the future." Where does the sales floor go from here. The answer to that from John Walker is "innovative and dramatic!" He envisions a "modified Lowe's Mall," a concept that will soon be tested in a prototype store. The idea is conceptually exciting and just as practical. In reviewing the performance of Lowe's new North Wilkesboro store over its first six months, an increase in cash sales of over 50% was recorded. This increase was attributed to the appeal of the display area to the home handyman—the do-it-yourselfer. This appeal was based on the clean, contemporary displays, the improved lighting, the more complete product selection, and the easily identifiable product areas. The Lowe's Mall concept takes these shopping conveniences one step further. The Mall would consist of complete product boutique-stores — all within the Lowe's sales floor, all wholly owned by Lowe's, all supplied by

the Lowe's central warehouses, and all staffed by Lowe's trained salespeople. Each "store" would have its own space, its own stylized design, and its own specially trained sales force. For instance, Lowe's Double Eagle Hardware Store would have all the tools, hardware, and accessories that Lowes' stocks. Every item would be displayed and individually priced. The customer could either pick up the items he needs and go straight to the Express Checkout, or he could ask the help of the Hardware Store salesperson to help him decide which item to purchase, or the proper way to use a product. Each "store" would have a unique design and each would be planned to best serve the customer purchasing that particular product. Other shops envisioned for the Lowe's Mall are "The Plumb Line" plumbing supply store . . . "The Fashion Bath" with bathroom items other than plumbing supplies . . . "Lumbertown" . . . "The Appliance Store" . . . and many others. The Lowe's Envi-Ro-Temp boutique-store would be a most helpful stop in a trip through Lowe's Mall. Its sales force would be carefully trained to answer all your questions on heating, air conditioning, and insulation. Any question, from "how much insulation do I need in my attic?" to the size furnace needed to heat your home would be answered here, and answered properly. Another benefit to the shopper in Lowe's Mall will be video tapes in each boutique-store giving up-to-date instructions in the proper use and applications of the products offered in that area.

Mr. Walker feels that this store design will appeal most to the family do-it-yourselfers, between the ages of twenty-five and forty-five. This age group, in the past few years, has become increasingly interested in improving their homes at the lowest possible cost, with the highest possible quality. Lowe's certainly fills that bill. And this new store concept would make filling that bill even easier than in the past. The Lowe's Mall would be able to present the customer with more products than ever before, with a sales floor size of 13,250 square feet, (an increase of 33% over our previous average standard store size). It can define more clearly the benefits of these products and the necessary related items. And it can assist the customers to make an educated purchase decision by giving them the knowledge to make the proper use of their purchases. They will then be able to make one stop for all products, accessories, supplies, and

instructions for a complete do-it-yourself home improvement job. This will provide a unique, substantive service for our customers and, at the same time, and over time, enhance the profitability of our Mall sales floor investment!

To sum up his vision of the Lowe's store of the future, John Walker says, "We are dedicated to helping improve the quality of life for our customers. With this in mind, we will provide for our new stores: all the necessary funding, including that for the increase in sales floor size . . . the style, environment, and design that will make it easier and more fun to shop in a Lowe's store . . . the complete product lines necessary to properly serve our customers . . . and the final — and essential touch — Lowe's low prices!"

In his enthusiasm for Lowe's North Wilkesboro store, and in his vision for future stores, John Walker reviews Lowe's past performance, he creatively studies our present endeavors, and endorses a spectacular future for Lowe's.

B.J. Bare

Store Manager, North Wilkesboro

As the Manager of this beautiful new store, B. J. Bare can hardly contain his enthusiasm. "It's hard to choose just one aspect of this store to be the most important, but I think it must be the central sales desk. This information and sales center gives our customers one centra spot to find a salesperson, to ask questions, to get help. Not only is this desk a boon to the customer, but to the sales force a well. It is valuable as a training aid for new salespeople, since they can listen to the more experienced people talking to the customers and pick up product knowledge as well as sales techniques." Do the customers appreciate this and other feature of Lowe's new store? Mr. Bare gives that question an emphatic "yes!" "Just the other day, Mrs. Nell Helms came in to buy a lawn mower and told me what a wonderful addition this beautiful store was to shopping convenience in downtown North Wilkesboro. And, Dr. David Daniels, president of Wilkes

Community College, called our store 'one of the prettiest in town,' which is certainly unusual for a building supply store."

And how about the sales force and their reaction to the change? "Morale has never been higher," says Mr. Bare. "They are showing up for work in coats and ties, and they keep the store clean enough to sell prescriptions! In fact, people are practically begging me for jobs. Lowe's has always had the reputation of being a good employer, but job applications have increased since we opened this store, from about two or three a week to two or three a day! I have been amazed at the difference this store makes in customer traffic. Compared to the old store, we now get more husband and wife shopping and many more women shopping alone or in pairs."

Mr. Bare goes on to stress a few of the other features of the store that are most important to him. The 15,000 foot sales floor lets him display special sale or "push" items right at the front door to encourage impulse sales. It also helps him to keep off-season merchandise on display, too, which is a sometimes overlooked advantage. The shopping carts, the Express Checkout, the self-opening front doors and covered front entrance are all a big help in seeing that our customers make their purchases as conveniently as possible. And, of course, the physical location of the store is important. It is in the middle of a four or five county trade area . . . it is in the middle of downtown North Wilkesboro . . . and it is passed by high vehicular traffic, travelling at low rates of speed.

So far, in this narrative, all the new emphasis in this store has been placed on the consumer. Has the professional contractor been left out? "No, indeed," says Mr. Bare. "I think we have the most convenient set-up for contractors that I've ever seen, in 23 years with Lowe's." Our pro sales force has a special private area dedicated to our contractors, one where consumer customers won't be likely to wander in. Another innovation for professional customers is the plumbing and heating City Counter, where they can get products, specialized service, and a wholesale price. The City Counter salesmen are experts in their field and can help not only their contractor customers, but other members of our regular sales force with their expertise.

Asked for his over-all opinion of the North Wilkesboro store, B. J. Bare says, "My customers are happier . . . my people are happier . . . of course I'm proud to have the #1 store in Lowe's land!"

Pete Kulynych (continued)

helped revitalize the downtown area. Its professional landscaping was coordinated to complement that already done by the Redevelopment Commission. Traffic flow — both customer and delivery — was another important consideration. With customers entering the front parking lot, loading their cars under the covered portico or at the back loading dock (for larger purchases), then exiting through the back lot, there is no bottleneck at the front entrance. And, prospective customers can catch a glimpse of the lumber in our outside covered storage sheds and be reassured by the care that we take to properly store these products.

These outside storage sheds are built in two designs: one to facilitate fork-lift truck operation, and the other for specialty items which require hand management. The first provides efficient loading and unloading from *both* sides of the shed. The second, provides for the special care necessary in handling these items.

The overall size of this store is recommended by Mr. Kulynych for future relocated stores. The 57,750 square foot main building provides a larger sales floor and display area, with more space on the display floor, as well as more storage in the warehouse. The additional lumber sheds and lean-to's bring the total square footage to 31,460, providing ample storage both inside and out.

In addition to the store size increase, the warehouse loading dock also increased in proportion. It now provides space for loading and unloading of more than one truck at a time. Mr. Kulynych has recommended that future stores have a lower loading floor on part of the dock to facilitate loading customer's pick-up trucks, cars, and wagons, which have lower loading heights. This will make self-delivery even easier for the Lowe's customers.

Closely related to the flow of customer traffic — but just as important — is the flow of delivery traffic for incoming merchandise. Since these trucks must exit through the back lot, the sequence of storage areas is most important. If the items most often bought by the customers are delivered to the spot nearest the loading dock — or nearest the sales floor for smaller items — then there is a minimum of wasted time and motion. Storage inside the building and outside was designed with just that in mind. The height of the ceilings allows vertical storage of many products, such as moulding, paneling, etc. which could be warped or otherwise damaged by horizontal storage. The extra space also allows for cube or bin storage near the loading dock for the most popular items. The design in both warehouse space and outside storage sheds provides corner protection against fork-lift damage, a common sight in many warehouses.

The paved loading yard of the North Wilkesboro store may seem like a small improvement, but its loading efficiency and general cleanliness alone makes it well worthwhile. The problem of trucks trying to unload or load in a sea of mud from spring rainfall has been eliminated. As has the problem of muddy feet on a clean sales floor, thus helping keep the store looking like new for many years to come.

Another important new facet of this store is its lighting. For the first time, Lowe's had all its lighting — inside and out — designed and installed by the General Electric Company. The lighting plan was designed to heighten the visibility in display areas . . . allow more efficient operation of warehouse and storage shed areas . . . and contribute to the security of the complex at all times, even at night and in the winter.

And that brings us to another very important aspect of this store — its security. First, there are only three ways in and out of the store: the front door, the warehouse loading dock, and the separate door to the City Counter for contractors. All of these exits are, of course, carefully watched. Second, there is special security in high price item areas, such as the display areas for televisions and stereos. Third, there is a security guard on duty at the back exit gate to see that no one enters the yard from the wrong direction, where he might not be seen from the store, and to keep an eye on loading and unloading processes.

Perhaps the most timely aspect of this store is its conservation minded design. Mr. Kulynych designed it with a complete conservation package, including extra-thick insulation in all areas to cut heat and air conditioning loss, and a solar water heater for the entire main store building. This feature typifies the thought for the future that went into the design of this store for today. So many of the features, here in the North Wilkesboro store for the first time, will go on to be basics in Lowe's store design of the future. The size of the building . . . the design of the inside and outside storage facilities . . . the loading dock . . . the display area . . . the lighting . . . even the landscaping and the paved loading lot are new features here, but will become integral parts of the Lowe's of the future.

What about the store design as a whole? Where does it fit into Lowe's future? Mr. Kulynych sees it as particularly well-suited to the re-entry market, that is, as a replacement store design in our less profitable markets. He feels that, in these tougher market areas, a store design with the previously-discussed features is the ultimate solution to the problem of increasing retail traffic, and could, in the next five to ten years, actually double a sluggish market's over-all profits.

Is Pete Kulynych satisfied with this new store design? "Well, yes . . . but . . ." He's already thinking of new features, new ideas to take into Lowe's future.

Lowe's 199 Store Locations

Alabama-9
Dothan
Gadsden
Huntsville
Mobile (2)
Montgomery
Muscle Shoals
Prattville
Tuscaloosa

Arkansas-5
El Dorado
Jonesboro
Little Rock
Pine Bluff
West Memphis

Delaware-2
Dover
Wilmington

Florida-6
Gainesville
Inverness
Maitland
Orlando
Pensacola
Tallahassee

Georgia-21
Albany
Athens
Augusta
Brunswick
College Park
Columbus (2)
Decatur
Doraville
Gainesville
LaGrange
Macon
Marietta
Moultrie
Rome
Savannah
Smyrna
Thomasville
Thomson
Valdosta
Warner Robins

Illinois-1
Marion

Indiana-4
Clarksville
Indianapolis
New Castle
Westfield

Kentucky-7
Danville
Elizabethtown
Frankfort
Lexington
Louisville
Paducah
Pikeville

Louisiana-8
Alexandria
Baton Rouge
Lafayette
Lake Charles
Leesville
Natchitoches
Shreveport
West Monroe

Maryland-5
Cumberland
Easton
Frederick
Hagerstown
Salisbury

Mississippi-7
Greenville
Greenwood
Gulfport
Hattiesburg
Jackson
Meridian
Tupelo

North Carolina-49
Albemarle
Asheboro
Asheville
Boone
Burlington
Cary
Chapel Hill
Charlotte (2)
Durham
Elizabeth City
Fayetteville
Forest City
Franklin
Gastonia
Goldsboro
Greensboro(2)
Greenville
Hendersonville
Hickory
High Point
Jacksonville
Kannapolis
Kinston
Lincolnton
Lumberton
Monroe
Morganton
Mount Airy
New Bern
North Wilkesboro
Raleigh
Reidsville
Rockingham
Rocky Mount
Sanford
Shelby
Sparta
Statesville
Troy
Washington
Waynesville
Whiteville
Wilmington
Wilson
Winston-Salem (2)
Zebulon

Ohio-7
Athens
Belpre
Cincinnati
Circleville
Lancaster
Springfield
Wheelersburg

Pennsylvania-3
Hanover
Lancaster
York

South Carolina-17
Aiken
Anderson
Charleston
Columbia
Easley
Florence
Gaffney
Greenville
Greenwood
Laurens
Manning
Myrtle Beach
Orangeburg
Rock Hill
Spartanburg
Sumter
West Columbia

Tennessee-17
Chattanooga
Clarksville
Cleveland
Cookeville
Dyersburg
Gallatin
Jackson
Johnson City
Kingsport
Knoxville
Lebanon
Maryville
Memphis (2)
Morristown
Murfreesboro
Nashville

Texas-1
Texarkana

Virginia-23
Bristol
Charlottesville
Coeburn
Danville
Dublin
Fredericksburg
Harrisonburg
Hopewell
Leesburg
Lynchburg
Manassas
Marion
Martinsville
Newport News
Norfolk
Richmond
Roanoke
South Boston
Staunton
Suffolk
Vienna
Winchester
Woodbridge

West Virginia-7
Charleston
Fairmont
Huntington
Matewan
Morgantown
Oak Hill
Princeton

Financial Report

Audit Committee Introduction

Lowe's Board of Directors, at a regular quarterly meeting on May 24, 1974 authorized the establishment of an Audit Committee of the Board of Directors to consist of the three directors who were not members of the then-established Executive Committee. A motion thereto was unanimously adopted. The primary responsibility of the Audit Committee is to review the functioning of Lowe's internal accounting and external auditing in order to assure all shareholders of the adequacy and effectiveness of these procedures.

Pictured from left: Chairman Gordon E. Cadwgan, William H. McElwee, and Robert G. Schwartz, meeting with J. A. Grisette.

Report of Audit Committee

1978, the fifth year of the Audit Committee's work was a busy year. In addition to the obligation to maintain continuing appraisal of the effectiveness of our internal auditing and controls, as well as the objectivity and independence of our public accountants, we have been involved in an overview capacity in the company's Project 80 program. This is an extensive data processing project to prepare the company's accounting and control systems for the multi-billion dollar sales goals of the 1980's.

We have confidence in the accuracy of the company's records, accounting procedures, internal controls and systems security, and that they are being improved under constant review.

J. A. Grisette & Co., the company's auditors, have provided an excellent objective and independent review of statements produced by the company.

We appreciate the helpfulness and cooperation of the company's officers and employees, and the internal auditors.

Submitted by:
William H. McElwee
Robert G. Schwartz
Gordon E. Cadwgan, Chairman

April 12, 1979

Audited Financial Statements

Introduction

Our 1970 Shareholder survey, published in our 1971 Annual Report, revealed that the combination of the Inside Back Cover Review and the Audited Financial Statements were cited as "Best Liked Portion of the Report" by 34% of responding shareholders. Ever since then, we and our Auditors have attempted to improve our reporting techniques in these sections through a combination of more pages, more facts, more pertinent disclosure, more communicative graphics, and less technical terminology.

With 19 pages of Audit and Financial Information, compared with 5 pages in 1971, plus the 22 year review of pages 56, 57, and 58, this report represents our latest augmented effort to achieve better communication of financial information, via the techniques listed above. Specific features repeated from prior years include an important discussion of Balance Sheet Management and other Financial Policies; a review of Changes in Financial Position, and Changes in Components of Working Capital; a Summary of Significant Accounting Policies; three separate period-to-period Management Discussions of the Summary of Operations; and generally expanded Notes to the Financial Statements.

We particularly want to advise you that most pertinent information in our 10-K report to the Securities and Exchange Commission is included in these Financial Statements for 1978. However, if you would like a copy of the 10-K, please check the appropriate box on the enclosed survey card, and we'll send you one at no charge.

Report of Independent Certified Public Accountants

The Board of Directors and Shareholders
Lowe's Companies, Inc.
North Wilkesboro, North Carolina

We have examined the consolidated balance sheets of Lowe's Companies, Inc. and subsidiaries as of January 31, 1979 and 1978, and the related consolidated statements of current and retained earnings and changes in financial position for the fiscal year ended January 31, 1979, and six months ended January 31, 1978. Our examinations were made in accordance with generally accepted auditing standards, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Lowe's Companies, Inc. and subsidiaries as of January 31, 1979 and 1978 and the consolidated results of operations and changes in financial position for the year ended January 31, 1979, and six months ended January 31, 1978, in conformity with generally accepted accounting principles consistently applied during the periods and on a basis consistent with the preceding twelve months ended January 31, 1978, except for the change, with which we concur, in the method of valuing inventories as discussed in Note 3 to the consolidated financial statements.

The accompanying consolidated statements of current and retained earnings and changes in financial position for the twelve months ended January 31, 1978, which have been recast for comparative purposes only, were not audited by us and, accordingly, we do not express an opinion on them (See Note 1[b]).

Lenoir, North Carolina
March 30, 1979

J. A. GRISETTE & CO.

Lowe's Financial Policies

Shown in Chart A is the sales growth trend at Lowe's, up an average 23% per year from 1974 through 1978. This growth rate is consistent with the longer range growth rates shown in line 5, page 56. It is also rather persistent despite several cycles in the economy, and is attributable to the marketplace acceptance of Lowe's merchandise and services, and to the geographic expansion thus made possible.

Chart B delineates net earnings as a percentage of sales during the last 5 years. Net return on sales measures the efficiency of the sales organization. It is affected by sales volume, customer and product mix, and income statement factors — margin rates, fixed and variable expenses, and tax rates. The rates shown here may be compared with those of prior years listed in line 19, pages 56 through 58. The percentage for 1978 was affected by the Accounting Change discussed on page 3. Our objective for fiscal 1979 is to get this important measurement back above 3% to sales.

Management's policy of earnings application is portrayed in Chart C and a policy change is clearly shown. Through 1975, our policy was to increase the cash dividends steadily, but slowly, and more slowly than earnings growth, in order to keep retained earnings growing as fast as possible. That policy has been changed, as discussed on page 3, to align our dividend growth rate more closely with our earnings growth rate.

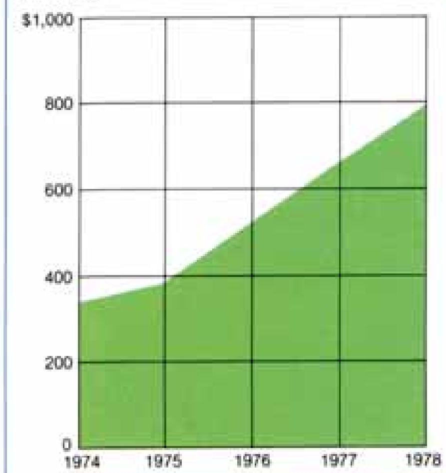
Let us now consider Balance Sheet (page 39) Policies and Management. Two major areas for financial policy, one for each side of the Balance Sheet, have guided Lowe's growth. First, for the Assets side, we concern ourselves with the structural balance of the various Asset components which contribute to our profits and growth. Charts A and B on page 38 portray the trends and proportions of each major component. Since Fixed Assets provide no direct return on investment, we maintain the major portion of our Assets in items that "turn" around sales, specifically Inventory and Accounts Receivable. From 1974 through 1978, Inventory and Receivables have been maintained at an average of 67% of total Assets. This heavy proportion in these two Assets, coupled with their rates of turnover, has enabled us to maintain our rate of total Asset Turnover (line 18, page 56), a major factor in our consistently high rate of Return on Shareholders' Equity.

Inventory is the single most important Asset to a company like Lowe's. Our fundamental mission is the retail marketing of hard goods, not retail financing and not real estate investment. Inventory is the raw material of profitability, and it rightly maintains its major proportion of Assets. Lowe's Sales to Inventory ratio — Total Sales divided by Average Inventory at cost — was 7.4 times in 1978. This ratio was also affected by the Accounting Change discussed earlier.

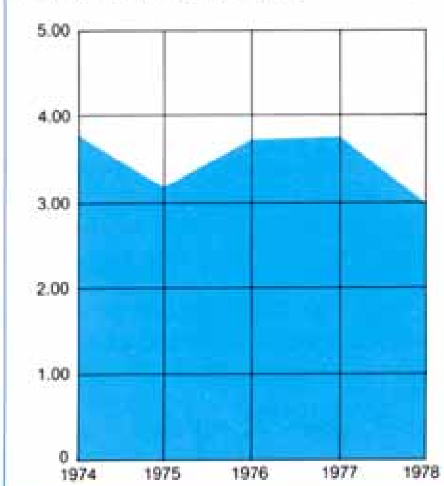
Accounts Receivable occupy the next largest portion of total Assets and are an essential marketing service to our professional customers. Their average tenure on the ledgers varies seasonally. Although we offer credit terms to our retail customers, these contracts are sold daily to finance companies on a non-recourse basis. These credit sales are therefore like cash sales to Lowe's — from the dual standpoints of risk and cash flow — and are not carried in Receivables. Our Receivables increased \$54 million, but declined about ½ of 1% of total assets. The \$66.8 million on January 31, 1978 was equal to 66% of sales to Professional Buyers during the Fourth Quarter, compared to 72% one year ago, reflecting better control by Credit Management. All Other Assets declined one percent of total.

Fixed Assets grew to the 30% level, principally because 15 of the 20 new stores opened this year were Lowe's built and owned.

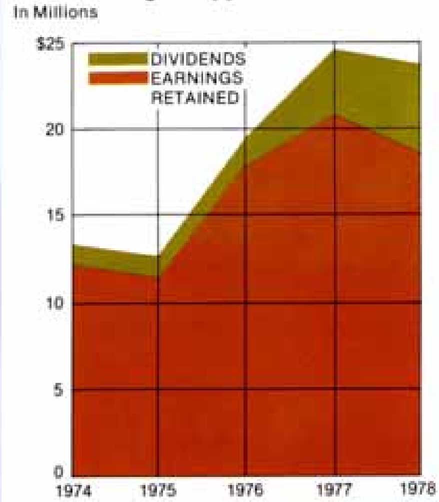
Total Sales Trends In Millions **A**



Percent Earnings to Sales **B**



Total Earnings & Applications In Millions **C**



Consolidated Statements of Current and Retained Earnings

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

	Year Ended January 31, 1979	Year Ended January 31, 1978	Six Months Ended January 31, 1978
		(Unaudited)	
CURRENT EARNINGS			
Net Sales	$793,125,313	$661,625,324	$322,031,868
Cost of Sales, Buying, Warehousing and Occupancy	647,178,838	528,829,915	256,348,716
Gross Profit	145,946,475	132,795,409	65,683,152
Expenses			
Selling, General and Administrative Expenses	74,804,202	61,224,495	31,938,358
Depreciation	8,713,648	6,743,840	3,503,673
Employee Retirement Benefits (Notes 1 and 8)	7,488,385	7,720,731	4,063,260
Provision for Bad Debts	3,474,109	4,115,767	1,555,009
Interest and Loan Expense	5,601,528	4,436,391	2,081,630
Total Expenses	100,081,872	84,241,224	43,141,930
Pre-Tax Earnings	45,864,603	48,554,185	22,541,222
Provision for Income Taxes (Notes 1 and 7)	22,140,770	23,861,028	11,046,757
Net Earnings (Note 3)	$ 23,723,833	$ 24,693,157	$ 11,494,465
Earnings Per Share (Notes 3 and 11)	$ 1.82	$ 1.90	$ .88
Dividends Per Share	$ .40	$ .30	$ .17
Shares Outstanding (Note 11)	13,022,126	13,022,126	13,022,126
RETAINED EARNINGS			
Balance at Beginning of Period	$110,362,963	$ 89,576,444	$101,082,260
Additions			
Net Earnings	23,723,833	24,693,157	11,494,465
Less Cash Dividends	5,208,850	3,906,638	2,213,762
Net Additions	18,514,983	20,786,519	9,280,703
Balance at End of Period	$128,877,946	$110,362,963	$110,362,963

See accompanying notes to the consolidated financial statements.

Lowe's Financial Policies

The second major financial policy consideration in Balance Sheet management deals with the Liabilities and Shareholders' Equity side, where we are specifically concerned with the financing of total Assets. The most important components here are Shareholders' Equity, Accounts Payable, Long-Term Debt, and Other Liabilities. Chart B and C show the proportions and trends of these major Balance Sheet elements, for the last five years.

Let's discuss Equity first. Since it was 52% of total Liabilities and Equity on January 31, 1979, it was obviously financing 52% of total Assets. Since the Equity growth rate is 18% annually compounded for the last four years, the concurrent 19% annual growth of total Assets has caused Equity's portion to decrease from 54% to 52% of the total. But Equity continues to finance the major percentage of total Assets. Still, Equity cannot finance the total Assets required to maximize Lowe's operations and opportunities. Besides shareholders' money, other people's money is needed and obtained, some on a short-term basis and some long-term. Leverage, as used here, is computed by dividing total Assets by Shareholders' Equity. Trends in Leverage are shown in the small table at right, and on lines 21 and 39 on pages 56 through 58.

Accounts Payable are historically the second largest portion of this half of the Balance Sheet. Payables are a function of Inventory purchases and the level will fluctuate as a percent of Inventory and as a source of financing Assets, mainly depending upon the yearly and seasonal patterns in the merchandise mix. It is interesting to note that from 1977 to 1978, there were such slight variances in credit extended to Lowe's, called Payables, and credit extended by Lowe's, called Receivables. In fact, the similarity in the trends of Payables and Receivables over the past five years provides insight into management of these sources and uses of short-term credit.

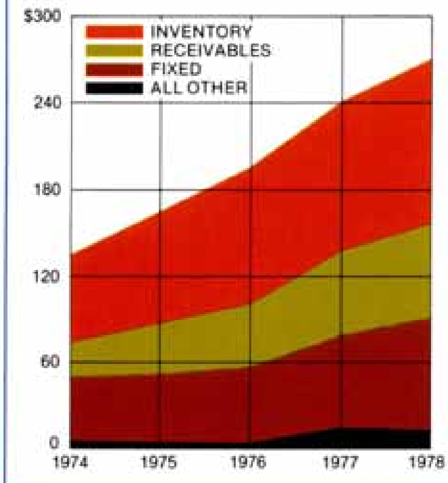
As Chart B shows Long-Term Debt has fluctuated most as a source of financing Assets in the last five years. This reflects changes in our store expansion policy. At the end of fiscal 1970, Lowe's owned half of our 64 stores and leased the other half. Between 1970 and the end of fiscal 1975, virtually all of the stores we opened were built by us, according to a standard design, and owned by Lowe's. And, since these non-turning Fixed Assets are a long-term investment, they were financed with Long-Term Debt. With the onset of the recession in 1975 and the opportunities presented thereby to take over existing facilities at attractive rentals, we changed our expansion strategy. In 1976 and 1977, most of the new stores opened were leased facilities and, since few of these qualify as so-called capital leases, Long-Term Debt declined as a percent of total. However, we are now again building and owning the major portion of our new store facilities. These will be financed over a 15-year period, through long-term borrowings from the Metropolitan Life Insurance Company.

The ratio derived by dividing Equity by Long-Term Debt is an oft-used evaluatory measure for capital structure, and the trends therein, shown in the small table at right, reflect a consistent and conservative good balance in Lowe's financing base.

Other Liabilities are various current obligations, including accrued income taxes, and were financing 6% of our Assets on January 31.

In summary, Balance Sheet management is one of the most important of Lowe's corporate strategies, and obviously essential to our growth.

Assets Trends & Composition A



Leverage Factor	1.85	1.98	1.92	1.98	1.92

Balance Sheet Trends B

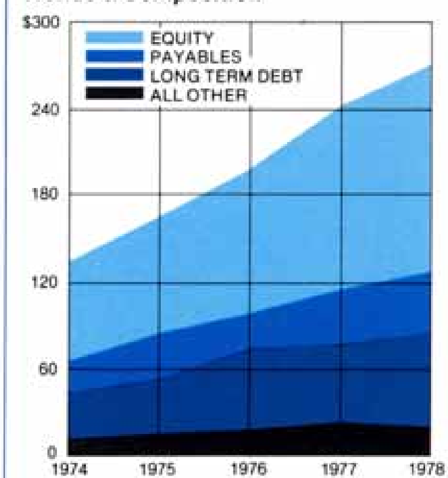
% of Total*

	1974	1975	1976	1977	1978
Inventory:	45%	48%	47%	43%	41%
Receivables:	18%	21%	24%	25%	25%
Fixed Assets:	33%	29%	28%	27%	30%
All Other:	4%	2%	1%	5%	4%
Totals:	100%	100%	100%	100%	100%
Equity:	54%	51%	52%	51%	52%
Payables:	14%	18%	12%	16%	17%
Debt:	25%	23%	28%	24%	25%
All Other:	7%	8%	8%	9%	6%
Totals:	100%	100%	100%	100%	100%

*Totals Rounded

Equity ÷ Debt Ratio	2.21	2.57	2.37	2.38	2.17

Equity and Liabilities Trends & Composition C



Consolidated Balance Sheets

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

	January 31, 1979	1978
ASSETS		
Current Assets		
Cash	$ 9,362,650	$ 10,947,268
Accounts Receivable Less Allowance for Doubtful Accounts — 1979 — $4,101,573; 1978 — $4,087,710	66,836,141	61,467,896
Inventories at the Lower of Cost (1979 — LIFO; 1978 — FIFO) or Market (Notes 1 and 3)	111,247,692	102,917,918
Prepaid Income Taxes	876,806	
Prepaid Expenses and Other Current Assets	904,877	1,306,973
Total Current Assets	189,228,166	176,640,055
Property, Improvements and Equipment (Notes 1, 4, and 5)		
At Cost Less Accumulated Depreciation — 1979 — $33,509,003; 1978 — $26,428,388	80,095,842	64,432,366
Other Assets		
Unamortized Loan Cost (Note 1)	230,608	196,456
Sundry Assets	140,486	256,408
Total Assets	$269,695,102	$241,525,285

LIABILITIES AND SHAREHOLDERS' EQUITY

	1979	1978
Current Liabilities		
Notes Payable (Note 6)	$	$ 5,000,000
Current Maturities of Long-Term Debt	2,300,504	1,870,561
Current Maturities of Obligations Under Capital Leases	138,896	
Accounts Payable	44,832,599	38,947,801
Employee Retirement Benefits Payable (Notes 1 and 8)	6,114,810	5,051,541
Other Liabilities	10,693,982	8,452,902
Federal and State Income Taxes Payable (Notes 1 and 7)		8,752,835
Total Current Liabilities	64,080,791	68,075,640
Long-Term Debt (Note 5)		
Notes Payable	62,265,695	49,712,053
Obligations Under Capital Leases	2,696,041	1,600,000
Total Long-Term Debt	64,961,736	51,312,053
Total Liabilities	129,042,527	119,387,693
Contingent Liabilities and Commitments (Notes 5, 9 and 10)		
Shareholders' Equity (Notes 1, 5 and 11)		
Common Stock—$.50 Par Value, Authorized 20,000,000 Shares, Issued and Outstanding 13,022,126 in 1979 and 1978	6,511,063	6,511,063
Capital in Excess of Par Value	5,263,566	5,263,566
Retained Earnings	128,877,946	110,362,963
Total Shareholders' Equity	140,652,575	122,137,592
Total Liabilities and Shareholders' Equity	$269,695,102	$241,525,285

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Financial Position

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

	Year Ended January 31, 1979	Year Ended January 31, 1978 (Unaudited)	Six Months Ended January 31, 1978
Source of Funds			
Net Earnings	$23,723,833	$24,693,157	$11,494,465
Charges to Earnings Which Did Not Require an Outlay of Funds—Depreciation	8,713,648	6,743,840	3,503,673
Funds from Operations	32,437,481	31,436,997	14,998,138
Additions to Long-Term Debt	16,624,937	10,350,000	6,000,000
Disposals of Property	1,051,677		288,395
Other Sources	81,770	17,883	
	50,195,865	41,804,880	21,286,533
Disposition of Fund			
Dividends Paid	5,208,850	3,906,638	2,213,762
Fixed Assets Acquired	25,428,801		8,014,440
Fixed Assets—Net Additions		15,790,375	
Decrease in Long-Term Debt	2,975,254	1,917,524	931,623
Federal Tax Adjustment (Note 7)		228,499	
Other Dispositions		39,180	51,780
	33,612,905	21,882,216	11,211,605
Increase in Working Capital	$16,582,960	$19,922,664	$10,074,928
Changes in Components of Working Capital			
Current Assets:			
Cash	$(1,584,618)	$10,212,018	$(2,376,457)
Receivables	5,368,245	15,592,165	(14,694,398)
Inventories	8,329,774	10,942,063	6,753,548
Prepaid Income Taxes	876,806		
Other Current Assets	(402,096)	388,912	759,009
	12,588,111	37,135,158	(9,558,298)
Current Liabilities:			
Notes Payable	(5,000,000)	(5,000,000)	5,000,000
Current Maturities of Long-Term Debt	429,943	207,482	91,684
Current Maturities of Obligations Under Capital Leases	138,896		
Accounts Payable	5,884,798	15,092,009	(21,376,126)
Retirement Benefits	1,063,269	1,722,699	(72,401)
Other Liabilities	2,241,080	1,312,296	(2,521,957)
Income Taxes	(8,752,835)	3,878,008	(754,426)
	(3,994,849)	17,212,494	(19,633,226)
Increase in working Capital	$16,582,960	$19,922,664	$10,074,928

See accompanying notes to the consolidated financial statements.

Note 1—Summary of Accounting Policies

The accounting policies of Lowe's Companies, Inc. and subsidiaries are in accordance with generally accepted accounting principles. Outlined below are those policies considered particularly significant.

(A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. There are 149 subsidiary corporations: 144 store companies, two lumber distribution yards, an advertising agency, a real estate company and a merchandise distribution center. Effective February 1, 1979 the store companies were organized within state lines. All material intercompany accounts and transactions have been eliminated.

(B) FISCAL YEAR CHANGE

Effective January 31, 1978 the Company changed its fiscal year from July 31 to January 31. As a result of this change, the accompanying statements contain audited balance sheets at January 31, 1979 and 1978 and audited statements of current and retained earnings and changes in financial position for the year ended January 31, 1979 and six months ended January 31, 1978. Unaudited statements of current and retained earnings and changes in financial position for the twelve months ended January 31, 1978 have been recast and are included for comparative purposes only.

(C) ACCOUNTS RECEIVABLE

Substantially all trade receivables are on a 30, 60 or 90-day basis. Service charges arising from certain classes of customer accounts are treated as a reduction of selling and administrative expenses in the statement of earnings.

Allowances for doubtful accounts are based on losses experienced by the stores. Installment receivables arising from consumer sales are sold without recourse to outside finance companies.

(D) INVENTORIES

Inventories are stated at the lower of cost or market. Effective for the year ended January 31, 1979, cost is determined using the last-in, first-out (LIFO) method for all merchandise inventories. In prior years cost was determined using the FIFO method. For details see Note 3.

(E) PROPERTY, IMPROVEMENTS AND EQUIPMENT

Property, improvements and equipment are carried at cost. Major additions are capitalized and depreciated; maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently. Upon disposal of fixed properties the cost and related accumulated depreciation are removed from the accounts. Gains and losses on items disposed of are reflected in income.

The provision for depreciation is based generally on accelerated methods for both financial reporting and income tax purposes.

(F) LEASES

The Company has adopted the requirements of Statement of Financial Accounting Standards No. 13 in accounting for and reporting on its leases. Assets under capital leases are being amortized in accordance with the Company's normal depreciation policy for owned assets or amortized over the life of the lease. The same policy applies to leasehold improvements. The charge to income resulting from amortization of these assets is included in depreciation expense in the financial statements (Note 9).

(G) INCOME TAXES

It is the policy of the Company to report earnings substantially on the same basis for tax and financial purposes. For the current year the Company and its subsidiaries will file a consolidated federal income tax return as opposed to the practice during prior years of filing separate returns for the Company and each of its subsidiaries. Investment tax credits are accounted for as a reduction of income tax expense in the year in which the credit is utilized.

(H) EMPLOYEE RETIREMENT PLANS

Since 1957 the Company has maintained retirement plans for its employees as described in Note 8. The plans provide for employer contributions only and are funded currently by the Company.

(I) STOCK OPTION PLANS

For a number of years qualified stock option plans were in effect to enable management to offer stock options to key employees. The plans were noncompensatory and had no effect on the earnings statement. The tax benefits flowing from the early disposition of stock by the optionees have been treated as an addition to capital in excess of par value. Options granted under these plans expired May 18, 1978. No options were exercised during the years ended January 31, 1979 and 1978.

(J) UNAMORTIZED LOAN COST

Certain expenses incurred in connection with obtaining long-term loans from an insurance company have been deferred and are being amortized over the life of the loans, on a straight-line method.

(K) START-UP EXPENSES

Expenses associated with the opening of new stores and service facilities are charged to earnings as incurred.

(L) EARNINGS PER SHARE

Earnings per share of common stock are calculated on the weighted average shares of common stock outstanding during each year.

Note 2—Audit Committee

The Board of Directors has designated three of its members, consisting of two outside members and the General Counsel for the Company, as an audit committee. The committee meets regularly to review with management and the independent auditors the Company's accounting policies and internal and external audit plans and results.

Note 3—Inventories

In prior years the Company has valued inventories under the first-in, first-out (FIFO) method. For the current year the Company has adopted the last-in, first-out (LIFO) method of inventory valuation. The LIFO inventory at January 31, 1979 is $8,465,857 less than the FIFO value resulting in a reduction in net earnings of $4,138,111 or $.32 per share. The change was implemented in order to match current costs with current revenues, and to partially offset the effect of inflation on earnings. There is no cumulative effect on prior years because the January 31, 1978 inventory is the beginning inventory value under the LIFO method.

The inventory amounts used in computing cost of goods sold were as follows:

January 31, 1977—Unaudited—FIFO	$ 91,975,855
July 31, 1977—FIFO	96,164,370
January 31, 1978—FIFO	102,917,918
January 31, 1979—LIFO	111,247,692

Note 4—Properties and Accumulated Depreciation

The properties and accumulated depreciation are summarized below by major classes with estimated lives in years as follows: Buildings, 20 to 50; Store and Office Equipment, 5 to 10; Transportation Equipment, 3 to 7; and Leasehold Improvements, 10 to 50.

	January 31, 1979		January 31, 1978	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 11,212,391	$	$ 9,274,188	$
Buildings	48,870,608	8,601,097	38,916,875	6,738,383
Store Equipment	15,213,428	6,802,872	11,749,508	5,282,530
Office Equipment	3,398,085	1,873,854	2,860,211	1,511,734
Transportation Equipment	21,674,001	12,558,232	16,848,655	9,996,747
Leasehold Improvements	13,236,332	3,672,948	11,211,317	2,898,994
	$113,604,845	$33,509,003	$90,860,754	$26,428,388

Note 5—Long-Term Debt

Long-term debt including current maturities is summarized as follows:

	January 31, 1979	January 31, 1978
Insurance Company Loans:		
Unsecured Notes Maturing Annually, 1980 through 1992—Interest Rates of 8¼%	$21,000,000	$21,000,000
Secured Notes Maturing Quarterly through 1993—Interest Rates of 5⅝% to 9%	35,061,522	27,134,963
Bank Loans:		
Unsecured Note Maturing in 1980—Interest Rate at ¼% Above Prime	5,000,000	
Secured Notes Maturing Quarterly through 1993—Interest Rates 7% and Prime Plus a Maximum of 2%	3,154,838	3,044,770
Mortgage Company Loans:		
Secured Note Maturing Monthly through 1998—Interest Rate of 9⅝%	299,012	303,864
Other Loans:		
Unsecured Notes Maturing 1979 and 1980—Interest Rates of 5½% to 8%	50,827	99,017
Obligations Under Capital Leases:		
Maturing Serially through 1991	1,600,000	1,600,000
Maturing Monthly through 1994	1,234,937	
	67,401,136	53,182,614
Less Current Maturities	2,439,400	1,870,561
	$64,961,736	$51,312,053

Debt maturities for the next five years, exclusive of obligations under capital leases (see Note 9), are as follows: 1979—$2,300,504; 1980—$8,906,263; 1981—$3,982,977; 1982—$4,780,852; 1983—$4,974,761.

The agreement covering the insurance company loans places certain requirements as to the financial condition to be maintained, restricts other borrowing and limits the payment of dividends. After giving effect to the most restrictive provisions, $18,353,954 of consolidated retained earnings are available for payment of dividends.

Deeds of trust covering store, central office and warehouse properties with a net book value of $38,794,745 have been pledged as collateral for the secured insurance company loans. Store properties having a net book value of $3,990,589 are pledged as collateral for the other secured loans.

At January 31, 1979 the Company had an informal line of credit agreement with its principal bank which provides for total short and long-term borrowings of up to $30,000,000, with outstanding long-term borrowings at that date of $5,000,000 with interest at ¼% above prime. There are no compensating balance or commitment fee arrangements with regard to the agreement.

Note 6—Short-Term Borrowings

The following information relates to aggregate short-term bank borrowings:

	Year Ended 1-31-79	Year Ended 1-31-78 (Unaudited)	Six Months Ended 1-31-78
Outstanding at Year End		$ 5,000,000	$5,000,000
Average Interest Rate at Year End		8.00%	8.00%
Maximum Amount Outstanding at Any Month End	$25,000,000	$20,000,000	$5,000,000
Average Amount Outstanding (Based on Weighted Daily Average)	$ 8,284,932	$ 6,747,945	$ 179,348
Weighted Average Interest Rate (Ratio of Actual Interest Expense to Average Amount Outstanding)	8.53%	6.47%	7.80%

There are no short-term borrowings outstanding at January 31, 1979 under the Company's informal line of credit. (See Note 5).

Note 7—Income Taxes

There are no material timing differences in reporting revenues and expenses for financial and income tax purposes, therefore, substantially all of the income tax expense is currently payable. Actual provisions for income tax expense are more than the amounts computed by applying a federal tax rate of 48% to pre-tax income. The reasons for these differences are as follows:

	Year Ended January 31, 1979 Amount	%	1978 (Unaudited) Amount	%
48% of Pre-Tax Income	$22,015,009	48.0	$23,306,009	48.0
State Income Taxes—Net of Federal Tax Benefit	1,347,999	2.9	1,446,797	3.0
Investment Tax Credit	(1,165,488)	(2.5)	(841,541)	(1.7)
Other	(56,750)	(.1)	(50,237)	(.1)
Total Provision for Income Taxes	$22,140,770	48.3	$23,861,028	49.2

	Six Months Ended January 31, 1978 Amount	%
48% of Pre-Tax Income	$10,819,787	48.0
State Income Taxes—Net of Federal Tax Benefit	645,055	2.9
Investment Tax Credit	(377,753)	(1.7)
Other	(40,332)	(.2)
Total Provision for Income Taxes	$11,046,757	49.0

The income tax liabilities have been reduced by the tax benefit resulting from the early disposition of stock by the optionees under the stock option plan. The benefit for the year ended January 31, 1978 of $17,883 has been treated as an addition to capital in excess of par value.

Agents of the Internal Revenue Service have completed their examination of the Company and its subsidiaries for the years ending on and prior to July 31, 1975. All adjustments have been reflected in the accompanying financial statements. Assessments resulting from adjustments to tax benefits from the early disposition of stock by optionees in the amount of $228,499 reflected in the year ended January 31, 1978 were treated as a reduction of capital in excess of par value.

Note 8—Employee Retirement Plans

In 1957, the Company established Lowe's Companies Profit-Sharing Plan and Trust, a qualified noncontributory employee profit-sharing plan, for all employees meeting minimum length of service requirements. The plan provided generally for a contribution of 15% of annual compensation of participating employees. Contributions were discontinued effective December 31, 1977, and the plan was terminated as of that date. Accounts of members in the plan became fully vested at that time, and the trust remains in effect for the benefit of these members. The trust holds approximately 17% of the outstanding shares of the Company and is the largest shareholder.

On December 19, 1977, the Board of Directors adopted an Employee Stock Ownership Plan to be effective as of January 1, 1978. This plan, like the profit-sharing plan, is a multi-employer plan and one trust serves the parent and the subsidiaries. The cost of the plan is met by annual contributions by each employer to the trust in an amount determined annually by the Board of Directors. A contribution of 15% of eligible compensation, as defined, was authorized for the fiscal year ended January 31, 1979.

Provisions for payments to the employee retirement plans amounted to $7,488,385 and $7,720,731, respectively, for the years ended January 31, 1979 and 1978, and $4,063,260 for the six months ended January 31, 1978.

Note 9—Long-Term Leases

There were 112 real estate leases with initial or remaining terms in excess of one year on January 31, 1979. These leases cover 83 store locations, two lumber distribution yards, one merchandise distribution center, and eight office and auxiliary locations. Two of the store locations are not yet in operation. Of these 94 locations under lease, 24 represent land leases on which the Company has erected substantially all of the improvements; the remaining 70 locations include both land and lessor improvements. Generally the leases will expire during the next ten years. In the normal course of business, it is anticipated that a majority of the leases will be renewed at expiration by Company option, or replaced by other properties. Purchase options available for leased properties at 13 of the store locations would amount to $2,765,750 if exercised under the current provisions of the leases. Six of the store locations are leased from Lowe's Companies Profit-Sharing Plan and Trust. In addition to the foregoing properties leased from others, the Company's real estate subsidiary owns 116 store locations and nine office and auxiliary locations which are currently in operation.

Five leases, one for a merchandise distribution center, one for a lumber distribution yard, and three for store locations are classified as capital leases. The following is an analysis of assets under these leases which are included in property, improvements and equipment in the financial statements.

	January 31, 1979	January 31, 1978
Land	$ 66,708	$ 62,406
Buildings	2,701,711	1,274,773
Store Equipment	42,231	34,999
Office Equipment	4,873	3,184
Transportation and Other Equipment	144,426	104,164
	2,959,949	1,479,526
Less Accumulated Amortization	558,776	106,640
Net Property Under Capital Leases	$2,401,173	$1,372,886

The Company also leases certain data processing and communications equipment. Purchase options available under these leases would amount to approximately $240,000 if exercised at the present time.

The future minimum rental payments required under capital leases and under operating leases having initial or remaining noncancelable lease terms in excess of one year are summarized as follows:

	Operating Leases			
	Real Estate	Equipment	Capital Leases	Total
Years Ending January 31:				
1980	$1,703,520	$127,609	$382,335	$2,213,464
1981	1,404,284	46,450	375,300	1,826,034
1982	1,114,329		378,125	1,492,454
1983	648,925		375,175	1,024,100
1984	320,476		371,737	692,213
Later Years	1,573,335		3,050,449	4,623,784
Total Minimum Lease Payments	$6,764,869	$174,059	4,933,121	$11,872,049
Less Amount Representing Interest			2,098,184	
Present Value of Minimum Lease Payments Under Capital Leases			2,834,937	
Less Current Maturities			138,896	
			$2,696,041	

Gross rental expenses charged to income are as follows:

	Year Ended		Six Months Ended
	January 31, 1979	January 31, 1978	January 31, 1978
		(Unaudited)	
Real Estate	$1,775,786	$1,678,217	$ 888,814
Equipment	935,048	801,800	421,775
Totals	$2,710,834	$2,480,017	$1,310,589

Note 10—Contingent Liabilities and Commitments

The Company had purchase commitments as of January 31, 1979 of approximately $2,100,000 for land and the construction of store facilities, and $472,000 for equipment.

Note 11—Per Share Earnings

Earnings per share have been computed on 13,022,126 outstanding shares. There was no change in the outstanding shares during the periods.

Note 12—Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for years ended January 31, 1979 and 1978 is as follows:

	Three Months Ended			
Year Ended January 31, 1979:	April 30,	July 31,	October 31,	January 31,
Net Sales	$167,340,073	$227,836,909	$222,418,066	$175,530,265
Gross Profit	$ 32,014,760	$ 42,054,338	$ 40,833,326	$ 31,044,051
Net Earnings	$ 4,638,775	$ 8,116,092	$ 6,800,922	$ 4,168,044
Earnings Per Share	$ .357	$ .623	$ .522	$ .320
Year Ended January 31, 1978:				
Net Sales	$149,049,026	$190,544,430	$181,367,126	$140,664,742
Gross Profit	$ 29,323,318	$ 37,788,939	$ 35,991,514	$ 29,691,638
Net Earnings	$ 5,423,606	$ 7,775,086	$ 6,604,822	$ 4,889,643
Earnings Per Share	$ .42	$ .60	$ .51	$ .37

As explained in Note 3, in the fourth quarter of the year ended January 31, 1979, the Company changed to the LIFO method of valuing inventories. The effect of the change on the fourth quarter was the reduction of net earnings by $915,764 or $.07 per share. The effect of the change on the first three quarters of the year is as follows:

	Three Months Ended		
	April 30,	July 31,	October 31,
Net Earnings:			
As Originally Reported	$ 5,511,916	$ 9,304,972	$ 7,961,248
Effect of Change to LIFO Method	(873,141)	(1,188,880)	(1,160,326)
As Restated	$ 4,638,775	$ 8,116,092	$ 6,800,922
Earnings Per Share:			
As Originally Reported	$ .423	$ .714	$ .611
Effect of Change to LIFO Method	(.066)	(.091)	(.089)
As Restated	$ .357	$ .623	$ .522

Note 13—Replacement Cost Data (Unaudited)

As required by the Securities and Exchange Commission, the Company will include certain estimated replacement cost data in the Form 10-K filed with the Commission. Such data will consist of the replacement cost of inventories, property and equipment, and the impact of these costs upon depreciation and cost of sales.

Due to inflation, the replacement cost of the Company's property and equipment would require a greater capital investment than was originally required. In the normal course of business, the Company has been able to and expects to continue to replace its properties in an orderly manner.

Because the Company has adopted the LIFO method of inventory accounting, the effect of replacement cost on cost of goods sold is not significant. Under LIFO accounting substantially all inflation is reflected in cost of goods sold as incurred.

The Company's Form 10-K (a copy of which is available to stockholders upon request) contains specific information with respect to the replacement cost data.

Management Analysis of the Summary of Operations

SUMMARY OF OPERATIONS

In Thousands (Except Earnings and Dividends Per Share)

	Year Ended January 31,		Six Months Ended January 31,		Year Ended July 31,			
	1979 (1)	**1978 (2)**	**1978**	**1977 (2)**	**1977**	**1976**	**1975**	**1974**
Net Sales	$793,125	$661,625	$322,032	$254,765	$594,358	$465,052	$340,882	$362,453
Cost of Sales, Buying, Warehousing and Occupancy	647,179	528,830	256,349	203,606	476,087	370,058	273,384	288,023
Gross Profit	145,946	132,795	65,683	51,158	118,271	94,994	67,498	74,430
Selling, General, Administrative and Advertising Expenses	74,804	61,224	31,938	26,030	55,316	45,386	34,563	33,371
Depreciation	8,714	6,744	3,504	2,972	6,212	4,976	4,177	3,458
Employee Retirement Benefits	7,488	7,721	4,063	2,718	6,376	4,870	3,368	3,649
Provision for Bad Debts	3,474	4,116	1,555	1,162	3,723	2,457	2,050	1,920
	94,480	79,805	41,060	32,882	71,627	57,688	44,159	42,398
	51,466	52,991	24,623	18,276	46,644	37,305	23,339	32,032
Income Deductions:								
Interest Expense	5,584	4,425	2,075	1,796	4,146	3,002	2,522	2,741
Amortization of Loan Cost	17	11	6	6	11	8	6	4
	5,602	4,436	2,082	1,802	4,157	3,010	2,528	2,745
Pre-Tax Earnings	45,865	48,554	22,541	16,474	42,487	34,295	20,811	29,287
Provision for Income Taxes:								
State	2,592	2,782	1,240	906	2,448	1,959	1,357	1,775
Federal	19,548	21,079	9,806	7,336	18,608	15,025	8,962	12,895
	22,141	23,861	11,047	8,242	21,056	16,984	10,319	14,670
Net Earnings	$ 23,724	$ 24,693	$ 11,494	$ 8,232	$ 21,431	$ 17,311	$ 10,492	$ 14,617
Earnings Per Common Share	$ 1.82	$ 1.90	$ .88	$ .63	$ 1.65	$ 1.33	$ .81	$ 1.14
Weighted Average Shares Outstanding	13,022	13,022	13,022	13,022	13,022	13,022	13,013	12,794
Dividends Paid Per Share	$ .40	$ .30	$ .17	$ .08	$ .21	$ .097	$ .09	$ .0817
Investment Tax Credit Recognized	$ 1,165	$ 842	$ 378	$ 138	$ 602	$ 406	$ 255	$ 144

Notes to Summary of Operations:

(1) For the year ended January 31, 1979 the Company adopted the LIFO method of inventory valuation. This change had the effect of reducing net income for the year ended January 31, 1979 by $4,138,111 or $.32 per share.

(2) Effective January 31, 1978 the Company changed its fiscal year from July 31 to January 31. The twelve month period ended January 31, 1978 and the six month period ended January 31, 1977 have been recast and are included for comparative purposes only.

Sales Analysis By Product Group
1

Thousands of Dollars

	Years Ended			Six Month Interim Periods Ended			Years Ended		
	Jan. 31, 1979		Jan. 31, 1978	Jan. 31, 1978		Jan. 31, 1977	July 31, 1977		July 31, 1976
	% Chg.[1]	Amount	Amount	% Chg.[1]	Amount	Amount	% Chg.[1]	Amount	Amount
1. Structural Lumber	+26%	$168,067	$133,887	+39%	$ 63,699	$ 45,828	+35%	$116,016	$ 85,803
2. Building Materials & Hardware	+19%	371,778	312,125	+29%	155,153	119,867	+29%	276,839	214,440
3. Plumbing, Electrical, Heating & Cooling	+13%	67,560	59,946	+21%	27,196	22,508	+27%	55,258	43,409
4. Kitchens & Home Laundry	+21%	38,659	31,827	+14%	15,618	13,651	+23%	29,860	24,245
5. House, Yard, & Farm Supplies	+21%	50,615	41,801	+17%	17,164	14,679	+16%	39,316	33,768
6. Home Entertainment	+21%	17,519	14,494	− 4%	10,107	10,542	+29%	14,929	11,565
7. Mobile Homes	−78%	464	2,135	−51%	630	1,293	−23%	2,798	3,624
8. Special Order Sales	+20%	78,463	65,410	+23%	32,465	26,397	+23%	59,342	48,198
Totals	+20%	$793,125	$661,625	+26%	$322,032	$254,765	+28%	$594,358	$465,052

[1]Period to period change of dollars to nearest whole percent.

Sales Analysis By Customer Group
2

Thousands of Dollars

	Years Ended			Six Month Interim Periods Ended			Years Ended		
	Jan. 31, 1979		Jan. 31, 1978	Jan. 31, 1978		Jan. 31, 1977	July 31, 1977		July 31, 1976
	% Chg.[1]	Amount	Amount	% Chg.[1]	Amount	Amount	% Chg.	Amount	Amount
Professional Buyers	+14%	$468,983	$411,613	+31%	$198,667	$151,083	+36%	$364,029	$266,940
Retail Customers	+30%	324,142	250,012	+19%	123,365	103,682	+16%	230,329	198,112
Totals	+20%	$793,125	$661,625	+26%	$322,032	$254,765	+28%	$594,358	$465,052

[1]Period to period change of dollars to nearest whole percent.

Sales Analysis By Store: Established Stores vs. New Stores
3

Thousands of Dollars

	Years Ended		Six Month Interim Periods Ended		Years Ended	
	Jan. 31, 1979	Jan. 31, 1978	Jan. 31, 1978	Jan. 31, 1977	July 31, 1977	July 31, 1976
Number of Stores Open	199*	180*	180*	154	175	150
Total Sales	$793,125	$661,625	$322,032	$254,765	$594,358	$465,052
% Change Total Sales	+19.9%	+27.4%	+26.4%	+26.9%	+27.8%	+36.4%
Number of Established Stores[1]	179*	153*	153*	141	150	130
Sales of Established Stores	$777,340	$632,413	$299,830	$244,158	$583,615	$477,962
Sales of Same Stores Previous Year	$661,625	$519,395	$254,765	$200,229	$465,052	$340,882
% Change Established Store Sales	+17.5%	+21.8%	+17.7%	+21.9%	+25.5%	+31.4%
Number of New Stores	20	27	27	13	25	20
Sales of New Stores	$ 15,785	$ 29,212	$ 22,202	$ 10,607	$ 10,743	$ 17,090
% Added by New Store Sales	+ 2.4%	+ 5.6%	+ 8.7%	+ 5.3%	+ 2.3%	+ 5.0%

[1]Established Stores are stores which have been open more than a year.
*One Store was closed in December, 1977, and another in December, 1978.

Cost and Income Analysis
4

	Years Ended			Six Month Interim Periods Ended			Years Ended		
	% Chg.(1)	% of Total(2) Jan. 31, 1979	% of Total(2) Jan. 31, 1978	% Chg.(1)	% of Total(2) Jan. 31, 1978	% of Total(2) Jan. 31, 1977	% Chg.(1)	% of Total(2) July 31, 1977	% of Total(2) July 31, 1976
Net Sales	+20%	100.00%	100.00%	+26%	100.00%	100.00%	+28%	100.00%	100.00%
Cost of Sales(3)	+22%	81.60%	79.93%	+26%	79.60%	79.92%	+29%	80.10%	79.57%
Gross Profit	+10%	18.40%	20.07%	+28%	20.40%	20.08%	+25%	19.90%	20.43%
Expenses:									
S,G, & A, Advertising	+22%	9.43%	9.25%	+23%	9.92%	10.22%	+22%	9.31%	9.76%
Depreciation	+29%	1.10%	1.02%	+18%	1.09%	1.16%	+25%	1.05%	1.07%
Employee Retirement Benefits	− 3%	.94%	1.17%	+50%	1.26%	1.07%	+31%	1.07%	1.05%
Provision for Bad Debts	−16%	.44%	.62%	+34%	.48%	.45%	+52%	.63%	.53%
Interest and Loan Cost(4)	+26%	.71%	.67%	+16%	.65%	.71%	+38%	.70%	.65%
Total Expenses	+19%	12.62%	12.73%	+24%	13.40%	13.61%	+25%	12.75%	13.05%
Pre-Tax Income	− 6%	5.78%	7.34%	+37%	7.00%	6.47%	+24%	7.15%	7.37%
Taxes (total)(5)	− 7%	48.27%	49.14%	+34%	49.01%(5)	50.03%(5)	+24%	49.56%(5)	49.52%(5)
Net Earnings	− 4%	2.99%	3.73%	+40%	3.57%	3.23%	+24%	3.61%	3.72%

(1)Period to period change of dollars to nearest whole percent.
(2)Percent of total sales, rounded to the nearest hundredth of a percent.
(3)Cost of sales, buying, warehousing and occupancy costs.
(4)Interest plus amortization of loan expense.
(5)Tax rate — taxes as a percent of pre-tax income.

Fiscal 1978 Compared to Fiscal 1977
(twelve months ended January 31 of following calendar year)

Sales increased in fiscal 1978 to $793,125,313 from $661,625,324, a 20% increase as housing and the general economy continued strong. As detailed in Tables 1, 2, and 3 on page 47, the fastest growing components of total sales were lumber products, retail customer purchases, and sales of established stores.

During fiscal 1978, the Company adopted the LIFO method of determining the cost of inventories. The cost of inventories had previously been determined by the FIFO method. This change in inventory accounting method was made in order to more closely match current costs with current revenue. Its effect was to decrease net earnings by $4,138,111, or $.32 per share.

Cost of Sales, Buying, Warehousing, and Occupancy increased as a percent of sales from fiscal 1977 to fiscal 1978. This increase was due primarily to the LIFO change, but also resulted from higher costs in other areas such as inventory shrinkage, purchasing, warehousing, and delivery salaries, and the increased expense of a full year's operation of the new distribution facilities which were opened during fiscal 1977.

Selling, General, Administrative, and Advertising expenses increased relative to sales in fiscal 1978 due to increased advertising and salaries expenses.

Depreciation increased due to the capitalization of certain long-term leases and to the 25% increase in fixed assets.

Employee retirement benefits declined slightly due to the change from the old Profit Sharing Plan to the new ESOP. Under the new plan, retroactive payment of prior years' profit sharing has been eliminated.

Provision for Bad Debts decreased in the year because of favorable write-off experience.

Interest Expense increased due to the increase in long-term debt plus additional seasonal short-term borrowing.

Provision for income taxes decreased as a percentage of pre-tax earnings due to earlier realization of investment tax credit with the change of all subsidiaries to a common January 31 fiscal year closing for tax-return purposes.

Six Months Ending January 31, 1978 Compared to
Six Months Ending January 31, 1977

Lowe's Board of Directors changed the Company's Fiscal year end from July 31 to January 31. This analysis therefore compares six months to six months.

Net sales for the six months ending January 31, 1978, totaled $322,031,868, an increase of 26% over the sales achieved in the same six month period the previous year. In general, this $67,267,178 sales gain reflected relatively high levels of new home building and fairly good consumer demand for building materials in the area served by Lowe's stores. Referring to Table 2, professional buyer sales increased 31% during this six month period, to 62% of total sales, from 59% in the prior year, comparable six month period. Retail customer sales increased 19% to 38% of total sales. Although the professional buyer sales increase was stronger than that for retail customer sales during this period, the gain in retail customer sales was more consistent. Professional buyer sales gains lost momentum during the latter half of the six month period ending January 31, 1978, as cold temperatures, snow, and generally inclement weather limited new home building activity.

In addition to favorable conditions in the economy, and in building materials and hard goods, Lowe's achieved increased sales during the six month period ending January 31, 1978, through new store openings, marketing programs designed to increase market penetration and unit sales in existing stores, and to an extent, through higher selling prices (inflation).

By product category (Table 1), structural lumber and building materials led the gain in total sales during the six month period, increasing 39% and 29%, respectively, both from a relatively large base. These two product categories combined represented 68% of total sales in the six months ending January 31, 1978, compared with 65% in the prior year, comparable six month period. Higher selling prices in products included in these two merchandise categories, notably, structural lumber and other wood products, plywood, insulation, asphalt, and gypsum, contributed most to an estimated inflation rate of approximately 11% during this period compared with a total reported sales gain of 26%.

Of the 26% total sales gain recorded for the six months ending January 31, 1978, an 8.7% increase or $22,202,000 in volume was generated by the 27 new stores open less than a year. Lowe's 153 stores open a year or more during this period achieved a sales increase of 17.7% (please refer to Table 3), representing increased unit volume as well as the inflation (higher selling prices) referred to in the preceding paragraph.

Gross profit dollars increased 28% period-to-period during the six months ending January 31, 1978, and since this was more than the increase in sales, the gross profit margin expanded to 20.40% from 20.08%. The gross margin improvement was achieved despite a shift in the mix of business favoring professional builder sales which normally yield a lower gross margin than do retail customer sales. Most of the improvement occurred during the final three months of the period and reflected higher year-to-year gross margins for most merchandise categories, in both customer segments, as well as a low inventory shrinkage during the period.

Total other expenses increased 24% for the six month period ended January 31, 1978, compared with the same six months the prior year. Since this rate of gain was less than the sales increase, the expense ratio comparison was favorable in the current six month period, with expenses representing 13.40% of sales compared with 13.61% in the prior period. This improvement was achieved through general control of expenses and the favorable leverage effect of higher sales.

Selling, General, Administrative, and Advertising expense is the largest component of other expenses, representing 9.92% of sales in the current six month period compared with 10.22% last year. S, G, A, & Advertising increased 23% in dollars, due in part to the additional expense incurred by the 27 new stores open less than a year during the six month period ended January 31, 1978, but primarily due to the increased salary dollars which vary with the level of sales.

Depreciation expense increased 18% year-to-year for the six month period and this is in line with normal fixed asset additions.

The expense for employee retirement benefits increased 50% year-to-year and requires some further comments. This is the same expense item as that previously identified as "Profit-Sharing Contribution." However, Lowe's Profit-Sharing Plan and Trust membership was frozen on December 31, 1977, with contributions discontinued as of that date, and a new Employee Stock Ownership Plan (ESOP) was commenced on January 1, 1978. Thus, the expense for contributions to both plans (Profit-Sharing Plan through December 31, 1977 and ESOP for January, 1978) is reflected in this item for the six months ending January 31, 1978. Although theoretically, the contribution for either plan should be related to salary expense, the dollar contribution for employee retirement benefits for the six months increased more year-to-year. The main reason for this is a change in the basis for paying such benefits. In the past, store employee contributions were based on each store's net profits surpassing minimum earnings levels, with a retroactive payment provision for those years in which the benefits were not paid in full. For calendar 1978, contributions for all eligible employees will be paid and accrued on the basis of 15% of total annual remuneration. Once this change has been in effect for a full year, and as long as the 15% is not changed by Lowe's Board of Directors, the year-to-year changes in contribution will be more closely aligned with changes in compensation.

The Provision for Bad Debts increased 34% period-to-period for the six months ended January 31, 1978. The provision for bad debts charged to income reflects both actual accounts receivable charged off and reserves against future write-offs which are generally based on the receivables balance at the end of the period. Actual accounts receivable charged off for the six months ended January 31, 1978, increased 27% to $1,484,423 from $1,170,354 charged off during the prior year, comparable six month period. Thus the increase in the provision charged to earnings primarily reflects the increased accounts charged off which, in turn, follow the 34% increase in the ending receivables balance of $61,467,896 on January 31, 1978, compared with $45,875,731 on January 31, 1977.

Finally, net interest expense increased 16% during the six months ended January 31, 1978. Although long-term debt was increased by approximately $10 million year-to-year, the increased interest expense incurred therefrom was partially offset by less short-term debt and short-term interest expense.

After deducting expenses from gross profit, pre-tax income increased 37%, for the six months ended January 31, 1978. With favorable comparisons for both gross margin and the expense ratio, the pre-tax margin (pre-tax income as a percent of sales) expanded to 7.00% from 6.47% in the prior year, six month period. The tax rate was slightly lower, 49.01% compared with 50.03%, due primarily to an increase in investment tax credit and therefore, net earnings and earnings per share increased 40%.

Fiscal 1977 Compared to Fiscal 1976
(twelve months ended July 31)

Net sales increased 28% in fiscal 1977, setting another record at $594,358,146 in the second year of recovery from the 1974-1975 recession in the economy. With mortgage financing readily available, and consumer disposable income improving, conditions were ripe for Lowe's to increase sales to professional builders and retail customers alike in the 16 states served by Lowe's stores. Although in general, the twelve month period corresponding to Lowe's fiscal 1977 year was marked by a better external environment for increasing sales, careful analysis of the quarters reveals that a severe (and perhaps more normal) winter limited Lowe's sales oportunity relative to the previous year, during the two middle quarters (ending January 31, 1977 and April 30, 1977). Cold temperatures and snows reaching down as far south as Mississippi and Florida restricted new home building (our professional buyer customers), and the same cold temperatures resulted in exorbitant utility bills for our consumer customers to pay, and caused plant closings and layoffs due to a shortage of natural gas, further crimping the disposable income of many of our retail customers. In contrast to these quarters, however, sales opportunities and results were excellent in the first quarter and the fourth quarter.

Internal factors contributing to the overall sales gain for the year included expansion of retail selling space through new store openings, advertising and selling programs which resulted in increased market penetration through higher unit sales, and to a lesser degree, higher selling prices. An analysis of this total sales increase by product group, customer group, and by stores open more than a year is shown in Tables 1, 2, and 3 on page 47.

Lowe's opened 25 new stores during fiscal 1977, bringing the total to 175 stores in 16 southeastern states. These 25 new stores generated $10,743,000 in sales volume, 2% of the fiscal 1977 total and a 2.3% increment to fiscal 1976 sales volume. The 25 new stores contributed less to this year's sales volume than the 20 new stores opened last year contributed to fiscal 1976 volume primarily because of the timing of the store openings. Construction delays caused by the winter weather resulted in an unusually high portion of the fiscal 1977 store openings to be scheduled at the very end of the year and, therefore, these new stores contributed only modestly to fiscal 1977 sales. Lowe's 150 established stores provided most of the fiscal 1977 sales increase. These 150 stores open throughout fiscal 1977 produced $583,615,000 in sales volume for a 25.5% increase in established store sales.

Compared to the 28% gain in total company sales, Lowe's professional buyer business increased 36%, reflecting a continuing upsurge in housing activity, particularly new single-family units. For the second year in a row, our retail customer sales increase, +16%, although a reasonably good increase, lagged behind the gain in builder sales (see Table 2).

Again this year, all major product groups increased sales (see Table 1), except for Mobile Homes, a merchandise line we are phasing out because although profitable, it provides an inadequate return on our investment.

Of all of our product groups, lumber sales increased most with a 35% gain. Lumber prices fluctuated less this year than in fiscal 1976; however, prices did rise during fiscal 1977, particularly at the very end of the year. We estimate, however, that unit gains accounted for well over half of the total increase in lumber sales. Building materials and home entertainment products both increased sales by 29%, but with a notable difference. Home entertainment product prices were close to flat, this year against last year, so the 29% gain was in units. Prices of several products in the building materials group were increased during the year including plywood, millwork, gypsum, and asphalt (roofing). Therefore, we estimate that unit increases accounted for about 70% of the total 29% sales gain in that group. Price increases in the remaining product groups in general were modest (5% or less), so overall the increases shown represent unit gains.

Cost of sales increased 29% in fiscal 1977, more than the increase in sales, and therefore, gross profit increased only 25%, and the gross profit margin narrowed to 19.90% from 20.43% in fiscal 1976. Contributing to the decline in total gross margin was a shift in the mix of business favoring professional buyer sales to 61% of total sales in fiscal 1977 from 57% in fiscal 1976. (Professional buyer sales yield a lower gross margin than do retail customer sales because of their higher composition of low-margin commodity products and because of discounts on volume purchases.) In addition, the gross profit margin on sales to both builders and retail customers was modestly lower year-to-year in fiscal 1977. In both customer groups, this was principally due to the lower margin opportunity in the sale of commodities, particularly lumber and plywood. In other words, while our costs on these commodities were rising during the year, we were not always able to pass through the cost increases completely in the form of higher selling prices.

Total other expenses declined as a percent of sales again in fiscal 1977 to 12.75% from 13.05% in fiscal 1976, primarily due to good expense control and the favorable leverage effect of above-average sales gains. Advertising, Selling, Administrative, and General expenses increased 22%, in part due to the additional expense incurred by the 25 new stores opened during the past twelve months, but primarily due to the increased salary dollars which vary with the level of sales. The smaller increase in net advertising expenditures, +12%, helped keep down the overall S, G, A & A expense gain, but the increase in productivity per employee was the real key in the improved expense ratio. Our sales per average employee increased 5% to $123,158 in fiscal 1977 from $116,965 in fiscal 1976.

Depreciation expense increased 25% in fiscal 1977, again, a normal change rate relative to our store expansion and continuing purchases of data processing and transportation equipment.

The profit-sharing contribution is based on salary expense and this item increased 31% in fiscal 1977. This was higher than the increase in salary expense, again this year, because of the retroactive payment provision of the Profit-Sharing Plan for past years' contribution not paid, once a store has reached a required level of earnings.

The Provision for Bad Debts increased 52% in fiscal 1977, commensurate with a very strong year for professional builder sales and resulting higher receivables, particularly at year-end.

Interest expense increased 38% in fiscal 1977 primarily due to a net increase of approximately $9.6 million in long-term debt and higher short-term borrowings during the year. The added long-term debt was used to finance new store expansion. Short-term borrowings are used to finance seasonal increases in working capital requirements, and these borrowings were repaid prior to July 31, 1977, leaving no short-term debt on the balance sheet at year-end. Interest rates paid on short-term borrowings were lower in fiscal 1977 than in fiscal 1976.

After deducting expenses from gross profit, pre-tax income increased 24%. Since the improvement in the expense ratio was not sufficient to offset the lower gross margin, the pre-tax margin contracted slightly to 7.15% of sales in fiscal 1977 from 7.37% in fiscal 1976. After taxes, at an approximately comparable rate in both years, net earnings also increased 24%.

DESCRIPTION OF LOWE'S BUSINESS

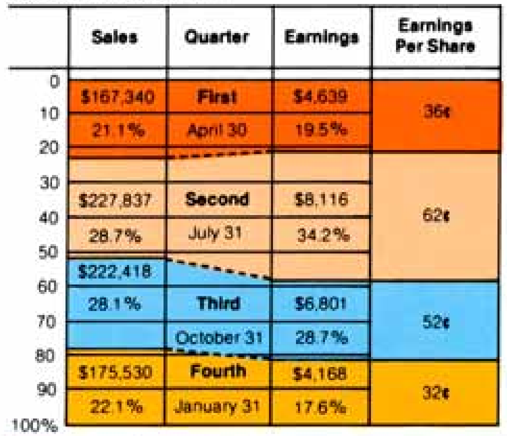
Lowe's Companies, Inc. and subsidiaries (the Company), operates a total of 199 retail store outlets in 19 states, located principally in the South Atlantic and South Central regions of the United States. Each store combines the merchandise service and functions of a lumber yard, a building materials supplier, an air conditioning, heating, plumbing and electrical supply center, a hardware store, an appliance and home electronics dealer, a hard goods discounter, and a professional marketing company. Merchandise items, many of which are nationally advertised brand names, are counted in stock-keeping units which currently number 12,000. The average store stocks approximately 8,000 of these. Table 1 on page 47 shows the percentage of change in the Company's consolidated sales accounted for by its major categories of merchandise for fiscal periods beginning August 1, 1975 and ending January 31, 1979.

Each store sells the same basic merchandise line to two major customer categories — professional buyers and retail customers. Professional buyers include building contractors, electricians, painters, plumbers, and industrial purchasing agents. Retail customers are primarily homeowners and others buying for personal or family use. Table 2 on page 47 shows the percentage of change in the Company's consolidated sales accounted for by these two major customer categories for fiscal periods beginning August 1, 1975, and ending January 31, 1979.

Quarterly Review of Performance

1978 Sales and Earnings 1

Dollars and % of Total Year



Quarterly % Change in Operating Results 2

(Change from same quarter previous year to nearest tenth %)

	Quarter Ended Jan 31 1979	Oct 31 1978	Jul 31 1978	Apr 30 1978
Net Sales	+ 24.8%	+ 22.6%	+ 19.6%	+ 12.3%
Cost of Sales	+ 30.2%	+ 24.9%	+ 21.6%	+ 13.0%
Gross Profit	+ 4.6%	+ 13.5%	+ 11.3%	+ 9.2%
Other Expenses:				
S, G, & A, Adv.	+ 21.1%	+ 23.4%	+ 21.4%	+ 22.8%
Depreciation	+ 40.5%	+ 27.9%	+ 24.4%	+ 22.6%
Emp. Benefit	− 8.4%	− 3.9%	− 17.8%	+ 31.5%
Bad Debt Prov.	− 58.1%	+ 5.6%	− 19.7%	+ 5.4%
Interest Expense	+ 44.6%	+ 21.9%	+ 11.2%	+ 29.5%
Total	+ 18.3%	+ 20.4%	+ 14.4%	+ 22.7%
Pre-Tax Earnings	− 26.2%	+ 1.7%	+ 6.6%	− 14.0%
Income Tax Prov.	− 39.3%	+ .5%	+ 8.9%	− 13.4%
Net Earnings	− 14.6%	+ 3.0%	+ 4.4%	− 14.5%

Quarterly % Analysis of Operating Results 3

(% of total sales to nearest hundredth. Income Tax is % of Pre-Tax Income.)

	Quarter Ended Jan 31 1979	Oct 31 1978	Jul 31 1978	Apr 30 1978
Net Sales	100.00%	100.00%	100.00%	100.00%
Cost of Sales	82.31%	81.64%	81.54%	80.87%
Gross Profit	17.69%	18.36%	18.46%	19.13%
Other Expenses:				
S, G, & A, Adv.	10.35%	9.39%	8.51%	9.77%
Depreciation	1.46%	.96%	.90%	1.17%
Emp. Benefit	.95%	.97%	.84%	1.06%
Bad Debt Prov.	.19%	.36%	.51%	.70%
Interest Expense	.88%	.56%	.61%	.86%
Total	13.83%	12.25%	11.37%	13.56%
Pre-Tax Earnings	3.86%	6.11%	7.09%	5.57%
Income Tax Rate	38.41%	49.98%	49.81%	50.28%
Net Earnings	2.37%	3.06%	3.56%	2.77%

Lowe's Customer Sales Profile 4

Thousands of Dollars, Rounded Totals

Category	Fiscal 1976(1) Sales	% of Total	Fiscal 1977(1) Sales	% of Total	Fiscal 1978 Sales	% Change (2)	% of Total
1st Qtr.							
PB	$ 73,283	60%	$ 94,139	63%	$104,890	+ 11%	63%
RC	49,195	40%	54,910	37%	62,450	+ 14%	37%
Totals	$122,478	100%	$149,049	100%	$167,340	+ 12%	100%
2nd Qtr.							
PB	$ 84,091	59%	$118,807	62%	$134,059	+ 13%	59%
RC	58,061	41%	71,737	38%	93,778	+ 31%	41%
Totals	$142,152	100%	$190,544	100%	$227,837	+ 20%	100%
3rd Qtr.							
PB	$ 82,888	59%	$113,237	62%	$128,107	+ 13%	58%
RC	56,747	41%	68,130	38%	94,311	+ 38%	42%
Totals	$139,635	100%	$181,367	100%	$222,418	+ 23%	100%
4th Qtr.							
PB	$ 68,195	59%	$ 85,430	61%	$101,927	+ 19%	58%
RC	46,935	41%	55,235	39%	73,603	+ 33%	42%
Totals	$115,130	100%	$140,665	100%	$175,530	+ 25%	100%

"PB" denotes Lowe's professional buyer sales.
"RC" denotes Lowe's retail customer sales.
(1) Restated as fiscal years ending January 31 of following calendar years.
(2) Percent change from same quarter previous year, to nearest whole percent.

Lowe's Product Sales Profile 5

Thousands of Dollars, Rounded Totals

Category	Fiscal 1976(1) Sales	% of Total	Fiscal 1977(1) Sales	% of Total	Fiscal 1978 Sales	% Change (2)	% of Total
1st Qtr.							
A	$ 80,596	66%	$ 99,534	67%	$116,947	+ 17%	70%
B	41,882	34%	49,515	33%	50,393	+ 2%	30%
Totals	$122,478	100%	$149,049	100%	$167,340	+ 12%	100%
2nd Qtr.							
A	$ 92,978	65%	$127,834	67%	$154,273	+ 21%	68%
B	49,174	35%	62,710	33%	73,564	+ 17%	32%
Totals	$142,152	100%	$190,544	100%	$227,837	+ 20%	100%
3rd Qtr.							
A	$ 95,233	68%	$128,503	71%	$155,713	+ 21%	70%
B	44,402	32%	52,864	29%	66,705	+ 26%	30%
Totals	$139,635	100%	$181,367	100%	$222,418	+ 23%	100%
4th Qtr.							
A	$ 70,930	62%	$ 90,845	65%	$114,653	+ 26%	65%
B	44,200	38%	49,820	35%	60,877	+ 22%	35%
Totals	$115,130	100%	$140,665	100%	$175,530	+ 25%	100%

"A" denotes sales of lumber, building materials and hardware.
"B" denotes all other sales.
(1) Restated as fiscal years ending January 31 of following calendar years.
(2) Percent change from same quarter previous year, to nearest whole percent.

Lowe's Store Sales Profile 6

Thousands of Dollars, Rounded Totals

Category	Fiscal 1976 Stores	Sales	Per Store Average	% Change *	% of Total**	Fiscal 1977 Stores	Sales	Per Store Average	% Change *	% of Total **	Fiscal 1978 Stores	Sales	Per Store Average	Change *	% of Total **
1st Qtr.															
ES(1)	130	$117,193	$ 901.5	+ 42%	96%	144	$142,288	$ 988.1	+ 10%	95%	158(3)	$155,272	$ 982.7	− 1%	93%
NS(2)	14	5,285	377.5	- 6%	4%	15	6,761	450.7	+ 19%	5%	24	12,068	502.8	+ 12%	7%
Totals	144	$122,478	$ 850.5	+ 41%	100%	159	$149,049	$ 937.4	+ 10%	100%	182	$167,340	919.5	− 2%	100%
2nd Qtr.															
ES	130	$133,884	$1,029.9	+ 18%	94%	150	$183,651	$1,224.3	+ 19%	96%	174(3)	$220,528	$1,267.4	+ 4%	97%
NS	20	8,268	413.4	-32%	6%	25	6,893	275.7	-33%	4%	11	7,309	664.5	+ 141%	3%
Totals	150	$142,152	$ 947.7	+ 12%	100%	175	$190,544	$1,091.1	+ 15%	100%	185	$227,837	$1,231.6	+ 13%	100%
3rd Qtr.															
ES	135	$131,570	$ 974.6	+ 17%	94%	152	$168,653	$1,109.6	+ 14%	93%	179(3)	$216,704	$1,210.6	+ 9%	97%
NS	17	8,065	473.7	+ 7%	6%	28	12,714	454.1	- 4%	7%	10	5,714	571.4	+ 26%	3%
Totals	152	$139,635	$ 918.7	+ 16%	100%	180	$181,367	$1,007.6	+ 10%	100%	189	$222,418	$1,176.8	+ 17%	100%
4th Qtr.															
ES	141	$109,656	$ 777.7	+ 10%	95%	153(3)	$133,747	$ 874.2	+ 12%	95%	179(3)	$168,375	$ 940.6	+ 8%	96%
NS	13	5,474	421.1	+ 26%	5%	27	6,918	266.2	-36%	5%	20	7,155	357.8	+ 34%	4%
Totals	154	$115,130	$ 747.6	+ 13%	100%	180	$140,665	$ 781.5	+ 5%	100%	199	$175,530	$ 882.1	+ 13%	100%

*Per Store Average change, to nearest whole percent.
**Portion of Total Sales, to nearest whole percent.

(1) ES denotes Established Stores, stores which have been open for one year or more.
(2) NS denotes New Stores, stores which have been open less than a year.
(3) A store was closed in December, 1977 and another in December, 1978; therefore, both the number and average sales volume of Established Stores have been reduced appropriately for comparative purposes, from the fourth quarter of Fiscal 1977, and the fourth quarter of fiscal 1978, onward.

Corporate Information

Directors

ROBERT L. STRICKLAND
CHAIRMAN OF THE BOARD, LOWE'S
MEMBER, COMPENSATION COMMITTEE
Director since 1961 (1)

LEONARD G. HERRING
PRESIDENT, LOWE'S
Director since 1956 (1)

PETRO KULYNYCH
MANAGING DIRECTOR, LOWE'S
Director since 1952 (1)

JOHN A. WALKER
MANAGING DIRECTOR, LOWE'S
Director since 1961 (1)

WILLIAM H. McELWEE, SR.
SENIOR VICE PRESIDENT AND
GENERAL COUNSEL, LOWE'S
PARTNER, McELWEE, HALL,
McELWEE & CANNON
MEMBER, AUDIT COMMITTEE
MEMBER, COMPENSATION COMMITTEE
Director since 1961 (1)

GORDON E. CADWGAN
TRUSTEE & FINANCIAL CONSULTANT,
TUCKER, ANTHONY & R. L. DAY, INC.
CHAIRMAN, AUDIT COMMITTEE
MEMBER, COMPENSATION COMMITTEE
Director since 1961

ROBERT G. SCHWARTZ
EXECUTIVE VICE PRESIDENT,
METROPOLITAN LIFE
INSURANCE COMPANY
CHAIRMAN, COMPENSATION COMMITTEE
MEMBER, AUDIT COMMITTEE
Director since 1973

(1) Also Officer

Officers

LEONARD G. HERRING
PRESIDENT AND
CHIEF EXECUTIVE OFFICER
Appointed 1978

DWIGHT E. PARDUE
EXECUTIVE VICE PRESIDENT,
STORE OPERATIONS
Appointed 1978

J. ROSS BURGESS, JR.
EXECUTIVE VICE PRESIDENT AND
GENERAL MERCHANDISE MANAGER
Appointed 1978

RICHARD ELLEDGE
SECRETARY AND CONTROLLER
Appointed 1978, and 1973

RODERICK P. MORROW
VICE PRESIDENT, ADMINISTRATION
Appointed 1977

WADE L. DUPREE
VICE PRESIDENT,
REAL ESTATE & EXPANSION
Appointed 1976

REX L. SHUMATE
VICE PRESIDENT AND TREASURER
Appointed 1973

ARNOLD N. LAKEY
VICE PRESIDENT,
CREDIT MANAGEMENT
Appointed 1973

General Information

HEADQUARTERS
Lowe's General Office
Highway 268 East, Box 1111
North Wilkesboro, N.C. 28656
Telephone (919) 667-3111

TRANSFER AGENTS
Wachovia Bank & Trust Co., N.A.
Box 3001
Winston-Salem, N.C. 27102

Morgan Guaranty Trust Co.
23 Wall Street
New York, N.Y. 10051

REGISTRARS
The Northwestern Bank
Box 85
Winston-Salem, N.C. 27102

The Chase Manhattan Bank
One Chase Manhattan Plaza
New York, N.Y. 10051

DIVIDEND DISBURSING AGENT
Wachovia Bank & Trust Co., N.A.
Box 3001
Winston-Salem, N.C. 27102

DIVIDEND REINVESTING AGENT
Citibank, N.A.
Box 5765 Grand Central Station
New York, N.Y. 10017

GENERAL COUNSEL
McElwee, Hall, McElwee, & Cannon
Box 1054
North Wilkesboro, N.C. 28659

CERTIFIED PUBLIC ACCOUNTANT
J. A. Grisette & Co.
Box 759
Lenoir, N.C. 28645

COMMON STOCK
Lowe's Common Stock price is quoted on NASDAQ, and published daily in National Over-The-Counter Market quotations.

INVESTOR RELATIONS
Security Analyst and Shareholder inquiries should be directed to:
Investor Relations
c/o Lowe's General Office

LOWE'S ANNUAL MEETING
Friday, May 25, 1979, 2:00 p.m.
The Holiday Inn
Highway 268 West,
Wilkesboro, North Carolina

FORM 10-K
Lowe's Annual Report to the Securities and Exchange Commission on Form 10-K is available to you without charge. Simply write to Lowe's Companies, Inc., Investor Relations, Box 1111, North Wilkesboro, North Carolina 28656.

Shareholder Census and Survey

Stockholder Composition: The number of Lowe's shareholders increased again this year, to 4,750 this January from 4,688 a year ago. We think this is significant since it is the fourth consecutive increase in our shareholder ranks. Table 3 at right presents our current shareholder census: the breakdown of the number of shareholders and number of shares, by state, of record January 31, 1979. Of Lowe's total shareholders, 78% of you live in the 19-state marketing area served by Lowe's stores, and the group includes many customers, employees, and suppliers; in other words, those who know us best. However, 47 of the 50 states, the District of Columbia, Canada, and several other countries are represented. Despite two secondary offerings and annual distributions of stock to retirees, Lowe's Profit-Sharing Trust continues to be the largest shareholder, with approximately 2,247,000 shares currently, 17% of the total. Also, our Employee Stock Ownership Trust, after just 13 months, is already Lowe's 11th largest shareholder. Thus, every Lowe's employee has a direct interest in our continued growth and profitability.

Shareholder Survey: We appreciate your participation in our periodic surveys of shareholders. This is one of the major ways we receive feedback from you concerning Lowe's. Again this year we have enjoyed a fine response from you, and from other annual report recipients, and the results are summarized in Table 1 at right. The age groups are fairly evenly distributed between 25 and 64, and we were pleased to see Lowe's Financial Reports cited so often as the spark igniting first awareness of Lowe's. Interestingly, 44% of our shareholders desire capital appreciation as their primary investment objective, with another 29% desiring both capital appreciation and dividend income. While our policy has been to plow back into the company the majority of earnings to meet the needs of expansion and growth, we have been accelerating the payment rate of quarterly cash dividends in recent years. Please see the discussion of Dividends in the Letter to Shareholders on page 2.

1978 Survey of Shareholders — 1

1. Gender of Shareholders:	
Male	87%
Female	10%
Corporation	3%
2. Age Group Breakdown:	
Under 25	4%
25-34	20%
35-44	22%
45-54	23%
55-64	18%
Over 65	13%
3. First Interest in Investing in Lowe's Occurred Within Past:	
Year	14%
1-2 Years	13%
2-5 Years	29%
Over 5 Years	23%
Over 10 Years	19%
No Response	2%
4. First Awareness of Lowe's as a Result of:	
Broker	17%
Lowe's Employee	11%
Lowe's Shareholder	7%
Lowe's Financial Reports	22%
Media Articles	17%
Other	24%
No Response	2%
5. Investment Objectives:	
Capital Appreciation	44%
Dividend Income	3%
Some of Both	29%
No Opinion	24%
6. From which of the following groups does your interest in Lowe's stem?	
Shareholder	43%
Security Analyst	12%
Financial Advisor	11%
Stockbroker	5%
Financial Press	3%
Financial Institution	4%
Lowe's Employee	8%
Other	14%
7. Which section of our July 31, 1977 Annual Report did you like best?	
All	43%
President's Letter	3%
President's Report	6%
Financial Report	17%
Marketing Research Report	6%
Shareholder Research Report	3%
Corporate History & Future	8%
Other	7%
No Response	7%
8. How much of the July 31, 1977 Annual Report did you read?	
Cover to Cover	29%
Almost every page	20%
Most of it	25%
Half	7%
Only the highlights	13%
Gave it a quick glance	4%
No Response	2%
9. Overall Judgment of the Report:	
Excellent	67%
Good	27%
Average	2%
No Response	4%
10. Do you feel you receive enough information on the Company?	
Yes	74%
No	3%
Not entirely	3%
No Response	20%

Lowe's Quarterly Stock Price Range — 2

Fiscal Year Ended:	Bid		Asked	
Jan. 31, 1979:	**High**	**Low**	**High**	**Low**
First Quarter	$23.75	$18.75	$24.75	$19.50
Second Quarter	$23.00	$19.50	$23.75	$20.25
Third Quarter	$26.00	$17.00	$26.75	$17.75
Fourth Quarter	$19.75	$16.50	$20.25	$17.25
Jan. 31, 1978:				
First Quarter	$26.75	$23.00	$27.50	$24.25
Second Quarter	$24.75	$21.00	$25.50	$21.75
Third Quarter	$24.25	$21.50	$25.00	$22.25
Fourth Quarter	$24.25	$19.50	$25.00	$20.25

Source: Wall Street Journal, National Association of Securities Dealers

Shareholder Census — 3

State	Holders	Shares
Alabama	57	73,849
Alaska	2	284
Arizona	14	3,347
Arkansas	1	260
California	75	285,499
Colorado	6	632
Connecticut	64	67,721
Delaware	21	44,059
District of Columbia	32	82,347
Florida	105	85,866
Georgia	105	28,803
Idaho	2	25,005
Illinois	89	378,260
Indiana	25	23,558
Iowa	6	14,110
Kansas	7	1,038
Kentucky	36	5,567
Louisiana	21	7,117
Maine	1	990
Maryland	119	67,491
Massachusetts	159	751,137
Michigan	61	103,079
Minnesota	21	76,598
Mississippi	17	5,422
Missouri	42	40,427
Montana	3	52
Nebraska	8	19,403
Nevada	3	430
New Hampshire	7	3,020
New Jersey	103	22,360
New Mexico	2	612
New York	245	5,108,179
North Carolina	2,161	2,158,747
North Dakota	1	50
Ohio	98	177,512
Oklahoma	5	2,238
Oregon	8	16,050
Pennsylvania	100	108,201
Rhode Island	90	90,362
South Carolina	199	69,594
Tennessee	136	116,875
Texas	42	71,145
Utah	1	30
Vermont	6	18,873
Virginia	341	227,675
Washington	17	29,954
West Virginia	40	14,564
Wisconsin	15	89,089
Wyoming		
Canada	14	30,156
Foreign	17	11,935
Sub Total		10,559,572
Employees' Profit-Sharing Trust		2,247,154
Employees' Stock Ownership Trust		215,400
Total	4,750	13,022,126

What You Should Know About Being a Lowe's Shareholder

"Customer Name" Or "Street Name?" When you purchase stock you have a choice between having your shares registered in your name, called "Customer Name," and the certificates sent to you to keep, or leaving your shares in safekeeping with your broker, in which case the certificates are registered in the broker's name, called "Street Name." There are merits to both plans, and your choice really depends on your personal requirements or preferences in owning stock. However, you should know that if you have your shares registered in your name in Lowe's shareholder records, you will receive all regular quarterly dividends and corporate communications —Annual and Quarterly Reports, etc.— unless you indicate otherwise in writing. (For example, you may elect to participate in Lowe's Automatic Dividend Reinvestment Service, in which case, your dividends would be forwarded to our Dividend Reinvesting Agent.) If you choose to leave your stock certificates with your broker registered in "Street Name," your name will not appear in Lowe's shareholder record file, and you will not receive dividends or corporate mailings directly. Instead, your broker will receive them and forward them to you according to the arrangements you make in setting up your account. And, if you wish to have stock transferred to someone else, you will have to give instructions to your broker. You may change your mind about "Customer Name" or "Street Name" at any time and more than once.

Protection Of Stock Certificates: If you do decide to register your Lowe's shares in your name, it is extremely important to safeguard your stock certificates as you would any valuable or legal document. In addition to the market value they represent, your stock certificates are tangible evidence of your authenticated share ownership in Lowe's Companies, Inc. or in any company whose stock certificates you hold. It is recommended that you keep your stock certificates in a safe place such as a bank safety deposit box, and that you keep a separate record of each certificate including the certificate number, the date of issuance, and the registration.

What To Do If Stock Certificates Are Lost Or Stolen: Though you may take all of the recommended precautions, stock certificates are lost and can be stolen. If a certificate is lost or stolen, you should write immediately to Wachovia Bank & Trust Company, Stock Transfer Dept., so a "stop" can be placed on the missing stock certificate. (This is similar to a "stop payment" on a check.) Your letter should include as much information as possible describing the certificate; in particular, the certificate number, the date the certificate was issued, and the registration. (The possible loss of stock certificates is one reason why it is recommended that you keep a separate record of this information.) Once a "stop" has been placed on the missing certificate, Wachovia will send you an affidavit which must be filled out, signed, notarized, and returned in order for a replacement certificate to be issued to you. You will also be required to purchase an indemnity bond for the lost certificate at a cost to you of about three percent of the current market value of the missing certificate, calculated at the time the bond is issued.

How To Eliminate Duplicate Mailings: Annual and Quarterly Reports and other corporate correspondence are automatically sent to each registered Lowe's shareholder. However, if more than one member of your family has Lowe's stock registered in his name, your family may be receiving multiple copies of these corporate mailings. If you so desire, you may eliminate some or all of these extra copies by writing to Wachovia Bank & Trust Company, N.A., and specifying which registered shareholder account names you would like deleted from the Annual and Quarterly Report mailing list. This will not in any way affect dividend checks. Each registered shareholder will continue to receive regular quarterly dividends unless he or she is a participant in Lowe's Automatic Dividend Reinvestment Service. This procedure achieves a significant cost reduction in production and mailing of the reports, while it saves you the annoyance of receiving unwanted mail.

Dividends: Lowe's Companies, Inc. has paid cash dividends on its common stock on a consecutive quarterly basis since June, 1961. And, these quarterly dividends are usually declared payable on or about the first of August, November, February, and May to all shareholders of record. "Shareholder of record" means that you are entitled to receive a dividend on the "payable date" if you were listed as a Lowe's shareholder on the "record date," approximately fifteen days before the payable date. In the past, the record date has been on or about the fifteenth of July, October, January, and April.

Taxes On Dividends: Corporate cash dividends are considered taxable as ordinary income and, as such, must be included in reporting annual personal income for tax purposes. At the end of each calendar year, Wachovia Bank & Trust Company, on behalf of Lowe's, is required to report to the Internal Revenue Service total dividends paid to each registered Lowe's shareholder during that calendar year. Wachovia then sends each shareholder a copy of the "1099" form filed with the I.R.S. entitled, "Statement for Recipients of Dividends and Distributions," which may be used as a convenient reference and record when personal income taxes are filed. Since Lowe's last dividend in the calendar year is paid around November 1st, most shareholders receive the "1099" statement along with that dividend check. If a shareholder has sold or transferred stock during the calendar year, the dividend statement will still be mailed early in November. Shareholders whose stock is registered in "Street Name" will receive a similar statement (form "1087") from their broker.

An Alternative To Cash Dividends— Lowe's Automatic Dividend Reinvestment Service: As you know, Lowe's has long maintained a policy of plowing back into the company the major portion of earnings in order to meet the needs of expansion and growth. Earnings reinvestment is consistent with and necessary for Lowe's stated long-term objective of growth. Shareholders wishing to pursue further the financial objective of capital appreciation through equity have an opportunity to plow back or reinvest their Lowe's quarterly cash dividends, and up to $1,000 per month in optional cash investment, in Lowe's common stock with the company paying all transaction and service fees. This alternative is possible through participation in Lowe's Automatic Dividend Reinvestment Service, a completely voluntary plan administered by Citibank as shareholder agent.

The way the plan works is simple. If you decide to participate, your dividends are paid directly to Citibank. The Bank combines your dividend payment with those of other member shareholders to purchase Lowe's Stock, and then credits your share of the purchase to your personal account. Once you have reinvested your first dividend and received a statement of account, you have the option to send to Citibank from $10 to $1,000 monthly to be applied toward similar interim purchases of Lowe's stock. Citibank will hold the reinvestment and optional cash investment shares in safekeeping for you, or you may request withdrawal of certificates for full shares.

21 Year Prologue, and a New Base Year

Fiscal Years Ended January 31 of Following Calendar Year, 1973-1977 Restated

New Base Year 1978 (1)			20 Year Compound Growth Rates 1957-1977 (2)	10 Year Compound Growth Rates 1967-1977 (2)	1977	1976	1975
		Stores and People					
199	1	Number of Stores	18.0%	14.4%	180	154	141
5,809	2	Number of Employees	16.7%	16.6%	5,123	4,200	3,600
10,013	3	Customers Served (Thousands)	17.0%	16.6%	8,817	7,611	6,324
$ 79.20	4	Average Customer Purchase			$ 75.04	$ 68.25	$ 61.40
		Comparative Income Statement (Thousands)					
$793,125	5	Total Sales	19.1%	22.9%	$661,625	$519,395	$388,254
$ 45,865	6	Pre-Tax Earnings	22.1%	23.8%	$ 48,554	$ 38,430	$ 24,483
$ 22,141	7	Taxes on Income	21.8%	24.5%	$ 23,861	$ 19,133	$ 12,057
$ 23,724	8	Net Earnings	22.4%	23.2%	$ 24,693	$ 19,297	$ 12,426
$ 32,437	9	Cash Flow (3)	23.2%	23.0%	$ 31,437	$ 24,851	$ 17,020
$ 5,209	10	Cash Dividends Paid	24.7% (2)	18.4% (2)	$ 3,907	$ 1,706	$ 1,215
$ 18,515	11	Earnings Retained and Reinvested	21.4%	24.3%	$ 20,786	$ 17,591	$ 11,211
		Dollars Per Share (Nearest Cent) (4)					
$ 60.91	12	Sales	18.7%	22.3%	$ 50.81	$ 39.89	$ 29.81
$ 1.82	13	Earnings (2)	21.9%	22.3%	$ 1.90	$ 1.48	$ .95
$ 2.49	14	Cash Flow (3)	23.3%	22.4%	$ 2.41	$ 1.91	$ 1.31
$ .40	15	Cash Dividends	24.1%	18.6% (2)	$ .30	$ .13	$ .10
$ 1.42	16	Earnings Retained and Reinvested	20.9%	23.8%	$ 1.60	$ 1.35	$ .86
$ 10.80	17	Shareholders' Equity	22.6%	22.3%	$ 9.38	$ 7.80	$ 6.44
		Performance Measurements*					
$ 3.28	18	Asset Turnover (Sales per Asset Dollar)			$ 3.39	$ 3.13	$ 2.90
× 2.99%	19	Return on Sales (Earnings as % of Sales)			× 3.73%	× 3.72%	× 3.20%
= 9.82%	20	Return on Assets			= 12.64%	= 11.64%	= 9.28%
× 1.98	21	Leverage Factor (Asset Dollars per Equity Dollar)			× 1.92	× 1.98	× 1.85
= 19.42%	22	Return on Shareholders' Equity			= 24.27%	= 23.05%	= 17.17%
		Comparative Balance Sheet (Thousands)					
$189,228	23	Current Asset Totals	21.5%	20.9%	$176,640	$139,505	$117,383
$ 9,363	24	Cash	16.6%	8.1%	$ 10,947	$ 735	$ 1,968
$ 66,836	25	Accounts Receivable (Net of Reserves)	24.6%	19.3%	$ 61,468	$ 45,876	$ 35,467
$111,248	26	Inventories (Lower of Cost or Market)	21.0%	25.4%	$102,918	$ 91,976	$ 79,159
$ 1,781	27	Other Current Assets	21.8%	23.5%	$ 1,307	$ 918	$ 790
$ 80,096	28	Fixed Assets	26.2%	25.9%	$ 64,432	$ 55,386	$ 48,006
$ 371	29	Other Assets	23.5%	15.6%	$ 453	$ 414	$ 420
$269,695	30	Total Assets	22.5%	22.0%	$241,525	$195,304	$165,809
$ 64,081	31	Current Liabilities Totals	19.5%	17.3%	$ 68,076	$ 50,863	$ 49,338
$ 44,833	32	Accounts Payable	19.2%	15.7%	$ 38,948	$ 23,856	$ 30,810
—	33	Income Tax Provisions	16.5%	14.2%	$ 8,753	$ 4,875	$ 3,851
—	34	Other Current Liabilities	22.4%	25.3%	$ 20,375	$ 22,132	$ 14,677
$ 64,962	35	Long-Term Debt	28.7%	29.0%	$ 51,312	$ 42,880	$ 32,588
$129,042	36	Total Liabilities	21.9%	21.1%	$119,388	$ 93,743	$ 81,926
$140,653	37	Shareholders' Equity	23.1%	22.9%	$122,137	$101,562	$ 83,883
2.17	38	Ratio: Equity ÷ Long Term Debt			2.38	2.37	2.57
1.92	39	Year End Leverage Factor: Assets ÷ Equity			1.98	1.92	1.98
		Shareholders and Shares					
4,750	40	Shareholders of Record, Year-End			4,688	4,110	3,686
13,022	41	Shares Outstanding, Year-End (Thousands) (4) (5)			13,022	13,022	13,022
	42	Stock Price Range During year (4)					
$ 26.00		High			$26.75	$33.00	$33.67
$ 16.50		Low			$19.50	$23.75	$18.67

Explanatory Notes

(1) As detailed in the Letter to Shareholders and the Notes to the Audited Financial Statements, we changed our inventory accounting for Fiscal 1978 to the LIFO (last-in, first-out) method, from the FIFO (first-in, first-out) method used for the prior 21 years shown in this review. Consequently, many line items in this review are non-comparable, and we have chosen to designate Fiscal 1978 as a new base year.

(2) Compound Growth Rates for 20.5 years and 10.5 years due to change official year-end from July 31 to January 31. Dividend Compound Growth Rates are from 1961, when dividend payments were begun.

(3) Here, Cash Flow is defined as the total of net earnings plus depreciation.

(4) As adjusted to reflect a 100% stock dividend in May, 1966, a 2 for 1 stock split in November, 1969, a 50% stock dividend in December, 1971, a 33⅓% stock dividend as of July 31, 1972, and a 50% stock dividend in June, 1976.

(5) Variation in the outstanding shares is the result of a Treasury Stock purchase in 1962, and subsequent employee stock option transactions. No additional shares have been sold or issued for acquisitions.

Fiscal Years Ended July 31

1974	1973		1973	1972	1971	1970	1969	1968	10 Year Compound Growth Rates 1957-1967	Base Year 1967
125	105	1	100	86	75	64	58	53	22.0%	44
2,900	3,200	2	3,296	2,630	2,071	1,670	1,450	1,223	16.8%	1,017
5,349	5,201	3	4,717	3,820	3,194	2,729	2,290	2,034	17.5%	1,755
$ 64.75	$ 68.45	4	$ 69.29	$ 61.40	$ 53.13	$ 47.09	$ 51.98	$ 47.70		$ 43.14
$346,343	$355,999	5	$326,846	$234,556	$169,723	$128,491	$119,053	$ 97,031	15.3%	$ 75,695
$ 26,255	$ 26,999	6	$ 25,393	$ 18,143	$ 13,027	$ 9,938	$ 9,514	$ 7,202	20.3%	$ 5,151
$ 13,163	$ 13,491	7	$ 12,665	$ 9,022	$ 6,479	$ 5,068	$ 4,906	$ 3,609	19.0%	$ 2,381
$ 13,092	$ 13,508	8	$ 12,728	$ 9,121	$ 6,548	$ 4,870	$ 4,608	$ 3,593	21.6%	$ 2,770
$ 16,835	$ 16,640	9	$ 15,519	$ 11,416	$ 8,174	$ 6,091	$ 5,559	$ 4,419	23.4%	$ 3,564
$ 1,098	$ 1,020	10	$ 1,017	$ 946	$ 907	$ 844	$ 780	$ 756	36.5% (2)	$ 661
$ 11,994	$ 12,488	11	$ 11,711	$ 8,174	$ 5,641	$ 4,026	$ 3,828	$ 2,837	18.3%	$ 2,109
$ 26.81	$ 27.94	12	$ 25.71	$ 18.54	$ 13.44	$ 10.18	$ 9.43	$ 7.77	15.0%	$ 6.13
$ 1.01	$ 1.06	13	$ 1.00	$ .72	$ .52	$ .39	$ .37	$ .29	21.2%	$ .22
$ 1.31	$ 1.31	14	$ 1.22	$ .90	$ .65	$ .48	$ .44	$ .35	23.1%	$ .29
$ .09	$ .08	15	$ .08	$ .07	$ .07	$ .07	$ .06	$ .06	35.8% (2)	$ .05
$ .93	$ .98	16	$ .92	$ .65	$ .45	$ .32	$ .31	$ .23	18.0%	$ .17
$ 5.60	$ 4.53	17	$ 4.07	$ 3.09	$ 2.43	$ 1.97	$ 1.65	$ 1.35	22.9%	$ 1.13
$ 2.78	$ 3.98	18	$ 3.65	$ 3.40	$ 3.43	$ 3.09	$ 3.37	$ 3.24		$ 2.65
× 3.78%	× 3.79%	19	× 3.89%	× 3.89%	× 3.86%	× 3.79%	× 3.87%	× 3.70%		× 3.66%
= 10.15%	= 15.08%	20	= 14.22%	= 13.20%	= 13.25%	= 11.72%	= 13.03%	= 11.98%		= 9.70%
× 2.16	× 2.03	21	× 2.28	× 2.26	× 1.99	× 1.99	× 2.08	× 2.15		× 2.42
= 22.70%	= 30.61%	22	= 32.42%	= 29.81%	= 26.31%	= 23.34%	= 27.07%	= 25.76%		= 23.49%
$ 89,136	$ 89,517	23	$ 96,391	$ 70,110	$ 54,911	$ 38,878	$ 33,433	$ 28,617	22.2%	$ 24,164
$ 3,780	$ 967	24	$ 7,859	$ 7,802	$ 6,304	$ 4,658	$ 4,640	$ 4,129	26.2%	$ 4,814
$ 23,779	$ 28,564	25	$ 37,603	$ 27,440	$ 20,944	$ 14,887	$ 14,559	$ 11,880	30.4%	$ 9,675
$ 60,623	$ 59,571	26	$ 50,639	$ 34,475	$ 27,332	$ 19,040	$ 14,183	$ 12,475	16.5%	$ 9,532
$ 955	$ 415	27	$ 290	$ 393	$ 331	$ 293	$ 51	$ 133	20.0%	$ 143
$ 44,818	$ 34,933	28	$ 29,238	$ 19,330	$ 14,087	$ 10,390	$ 7,918	$ 6,546	26.4%	$ 5,729
$ 146	$ 86	29	$ 85	$ 45	$ 88	$ 148	$ 209	$ 205	32.4%	$ 99
$134,101	$124,536	30	$125,714	$ 89,485	$ 69,086	$ 49,416	$ 41,560	$ 35,368	22.9%	$ 29,992
$ 29,108	$ 34,332	31	$ 55,694	$ 40,217	$ 31,198	$ 21,212	$ 18,505	$ 14,911	21.5%	$ 12,503
$ 18,834	$ 18,966	32	$ 36,101	$ 27,684	$ 21,999	$ 15,178	$ 10,997	$ 9,703	22.9%	$ 8,425
$ 3,961	$ 3,522	33	$ 5,073	$ 5,086	$ 4,293	$ 2,833	$ 3,380	$ 2,706	18.9%	$ 2,177
$ 6,313	$ 11,844	34	$ 14,520	$ 7,447	$ 4,906	$ 3,201	$ 4,128	$ 2,502	19.3%	$ 1,901
$ 32,667	$ 32,541	35	$ 18,238	$ 10,014	$ 7,296	$ 3,315	$ 2,192	$ 3,434	28.3%	$ 3,527
$ 61,775	$ 66,873	36	$ 73,932	$ 50,231	$ 38,494	$ 24,527	$ 20,697	$ 18,346	22.7%	$ 16,033
$ 72,326	$ 57,663	37	$ 51,782	$ 39,254	$ 30,592	$ 24,889	$ 20,863	$ 17,022	23.2%	$ 13,959
2.21	1.77	38	2.84	3.92	4.19	7.51	9.52	4.95		3.95
1.85	2.16	39	2.43	2.28	2.26	1.99	1.99	2.08		2.15
3,335	3,718	40	3,704	3,038	2,463	2,117	1,916	1,976		2,154
12,917	12,742	41	12,731	12,683	12,629	12,623	12,623	12,609		12,375
$34.67	$44.00	42	$48.00	$44.34	$23.00	$12.00	$12.00	$ 8.00		$ 4.00
$12.67	$24.00		$32.67	$20.00	$ 9.67	$ 6.33	$ 7.67	$ 4.00		$ 2.00

Performance Measurements*

Line 22, Return on Shareholders' Equity, may be derived by dividing Net Earnings by Shareholders' Equity. But this approach provides no understanding of why and how this return was attained. It is better to "take it from the top" and think through each major variable, to facilitate understanding of their interrelationships.

Asset Turnover is affected by sales volume, by the cash-charge sales mix and by the composition and performance of left-side balance sheet factors. The amounts of assets allocated to inventory, accounts receivable, and fixed assets, and the turnover rates of inventory and receivables, all affect Asset Turnover. For every $1.00 in assets at the beginning of fiscal 1978, Lowe's achieved $3.29 in sales.

	1966	1965	1964	1963	1962	1961	1960	1959	1958	Base Year 1957	
44	39	35	28	22	18	15	15	13	9	6	1
017	891	762	636	555	491	399	360	334	273	215	2
755	1,636	1,284	1,141	883	703	651	581	514	393	351	3
.14	$ 47.10	$ 44.44	$ 42.66	$ 44.20	$ 46.52	$ 47.85	$ 52.80	$ 52.00	$ 52.00	$ 52.00	4
895	$ 77,043	$ 57,044	$ 48,680	$ 39,012	$ 32,716	$ 31,128	$ 30,679	$ 27,005	$ 20,444	$ 18,233	5
151	$ 5,286	$ 3,942	$ 3,086	$ 2,438	$ 2,054	$ 1,890	$ 1,359	$ 1,516	$ 833	$ 811	6
381	$ 2,496	$ 1,896	$ 1,518	$ 1,233	$ 1,034	$ 956	$ 641	$ 760	$ 429	$ 418	7
770	$ 2,790	$ 2,046	$ 1,568	$ 1,205	$ 1,020	$ 934	$ 718	$ 756	$ 404	$ 393	8
564	$ 3,339	$ 2,351	$ 1,765	$ 1,356	$ 1,145	$ 1,067	$ 855	$ 862	$ 477	$ 434	9
561	$ 616	$ 519	$ 460	$ 411	$ 402	$ 102	—	—	—	—	10
109	$ 2,174	$ 1,527	$ 1,108	$ 794	$ 618	$ 832	$ 718	$ 756	$ 404	$ 393	11
.13	$ 6.29	$ 4.68	$ 4.08	$ 3.29	$ 2.73	$ 2.59	$ 2.56	$ 2.25	$ 1.70	$ 1.52	12
.22	$ .23	$ .17	$ .13	$ .10	$ .09	$ .08	$ .06	$ .06	$ .03	$ .03	13
.29	$ .27	$ .20	$ .15	$ .11	$ .10	$ .09	$ .07	$ .07	$ .04	$ .04	14
.05	$ .05	$ .04	$ .04	$ .03	$ .03	$ .01	—	—	—	—	15
.17	$ .17	$ .13	$ .09	$ .07	$ .05	$ .07	$ .07	$ .07	$ .04	$ .04	16
.13	$ .95	$ .78	$ .65	$ .53	$ .47	$ .42	$ .30	$ .24	$ .18	$ .14	17
.65	$ 3.34	$ 3.20	$ 3.11	$ 2.98	$ 2.76	$ 3.32	$ 4.35	$ 5.13	$ 5.38	$ 5.07	18
.66%	× 3.62%	× 3.59%	× 3.22%	× 3.09%	× 3.12%	× 3.00%	× 2.34%	× 2.80%	× 1.98%	× 2.15%	19
.70%	=12.09%	=11.49%	=10.03%	= 9.20%	= 8.62%	= 9.96%	=10.18%	=14.36%	=10.65%	=10.90%	20
.42	× 2.43	× 2.31	× 2.47	× 2.31	× 2.34	× 2.57	× 2.40	× 2.43	× 2.20	× 2.73	21
.49%	=29.40%	=26.55%	=24.78%	=21.28%	=20.23%	=25.60%	=24.43%	=34.89%	=23.40%	=29.76%	22
64	$ 23,396	$ 19,187	$ 15,350	$ 13,976	$ 11,702	$ 9,305	$ 8,071	$ 5,737	$ 4,618	$ 3,243	23
114	$ 3,024	$ 3,801	$ 3,374	$ 2,735	$ 1,956	$ 1,299	$ 442	$ 365	$ 583	$ 468	24
575	$ 9,310	$ 7,165	$ 5,586	$ 4,968	$ 3,769	$ 3,108	$ 2,858	$ 2,112	$ 1,324	$ 680	25
532	$ 10,931	$ 8,156	$ 6,337	$ 6,214	$ 5,868	$ 4,801	$ 4,755	$ 3,164	$ 2,655	$ 2,072	26
43	$ 131	$ 65	$ 53	$ 59	$ 109	$ 97	$ 16	$ 96	$ 56	$ 23	27
729	$ 5,058	$ 3,832	$ 2,381	$ 1,531	$ 1,261	$ 1,229	$ 1,253	$ 1,281	$ 630	$ 550	28
99	$ 105	$ 77	$ 73	$ 123	$ 134	$ 1,301	$ 58	$ 30	$ 19	$ 6	29
992	$ 28,559	$ 23,096	$ 17,804	$ 15,630	$ 13,097	$ 11,835	$ 9,382	$ 7,048	$ 5,267	$ 3,799	30
503	$ 13,630	$ 11,213	$ 7,454	$ 7,123	$ 5,696	$ 4,922	$ 4,874	$ 3,130	$ 2,513	$ 1,778	31
525	$ 9,496	$ 7,913	$ 5,149	$ 5,036	$ 4,255	$ 3,187	$ 2,827	$ 1,562	$ 1,724	$ 1,068	32
77	$ 2,182	$ 1,671	$ 1,142	$ 1,073	$ 855	$ 716	$ 521	$ 642	$ 371	$ 384	33
001	$ 1,952	$ 1,629	$ 1,163	$ 1,014	$ 586	$ 1,019	$ 1,526	$ 926	$ 418	$ 326	34
527	$ 3,127	$ 2,377	$ 2,615	$ 2,139	$ 1,680	$ 1,791	$ 862	$ 986	$ 589	$ 292	35
633	$ 16,765	$ 13,606	$ 10,097	$ 9,304	$ 7,435	$ 6,792	$ 5,736	$ 4,116	$ 3,102	$ 2,070	36
559	$ 11,794	$ 9,490	$ 7,707	$ 6,326	$ 5,662	$ 5,043	$ 3,646	$ 2,932	$ 2,165	$ 1,729	37
95	3.77	3.99	2.95	2.95	3.37	2.81	4.23	2.97	5.26	5.92	38
15	2.42	2.43	2.31	2.47	2.31	2.35	2.57	2.40	2.43	2.20	39
54	1,985	1,871	1,967	2,034	2,047	—	—	—	—	—	40
75	12,317	12,183	11,919	11,856	12,000	12,000	12,000	12,000	12,000	12,000	41
						—	—	—	—	—	42
0	$ 3.33	$ 2.67	$ 2.00	$ 1.00	$ 1.67						
0	$ 2.33	$ 1.67	$ 1.00	$ .67	$ 1.00						

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Return on Sales is the measurement of the efficiency of the sales organization. It is affected by sales volume, customer and product mix, and income statement factors—margin rates, fixed and variable expenses, and tax rates. Fiscal 1978's return on sales was 2.99%. This multiplied by Asset Turnover, gives Return on Assets of 9.82%. This is the same as dividing Net Earnings by Beginning Assets.

Leverage introduces "right-side" balance sheet factors, and measures equity dollars versus total asset dollars. For every $1.00 of Shareholders' Equity at the beginning of 1978, Lowe's had $.98 in other liabilities, thus financing $1.98 in assets. This $1.98 leverage factor times the 9.82% Return on Assets gives Return on Beginning Shareholders' Equity of 19.42%. Totals vary due to rounding.

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Charts

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