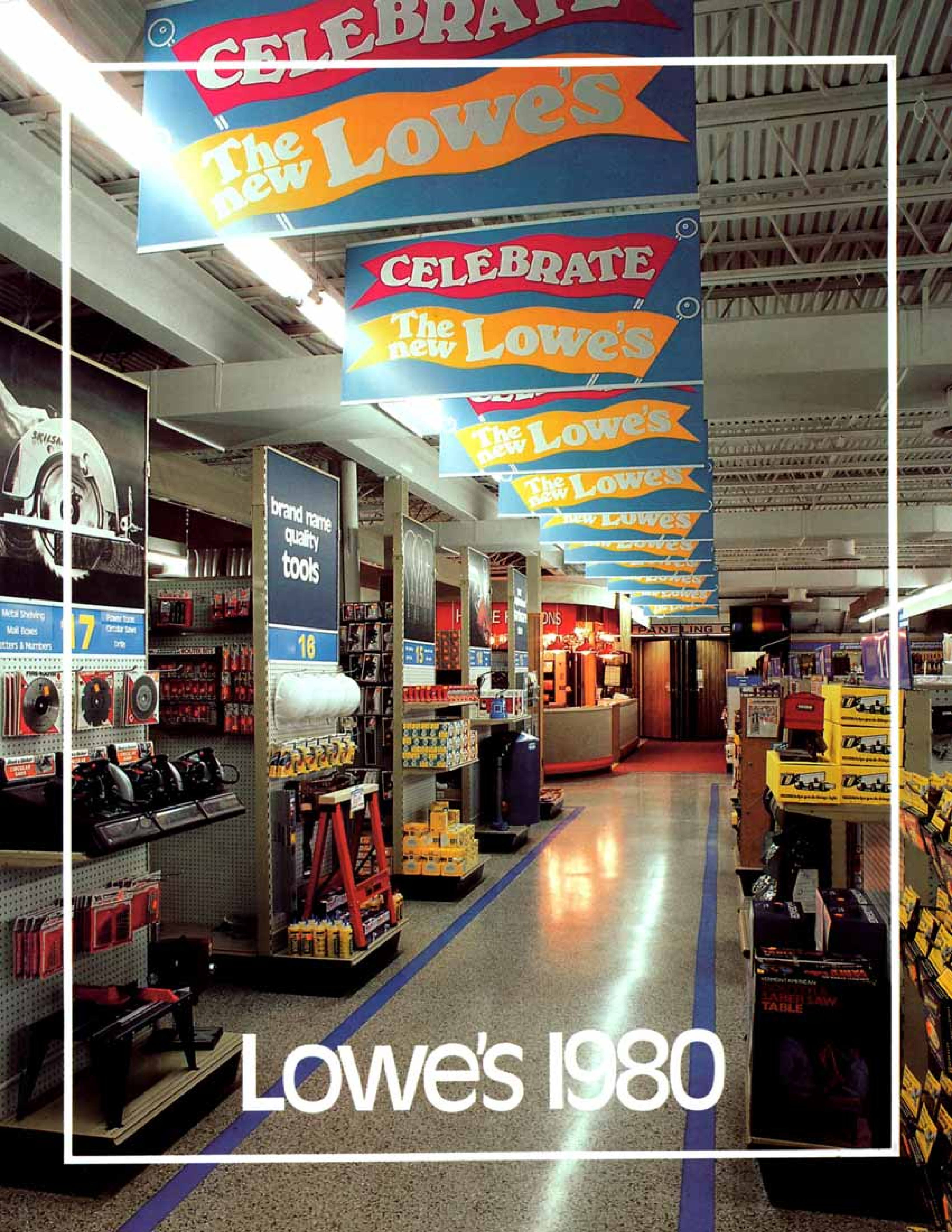
Lowe's 1980


CELEBRATE
The new Lowe's
brand name
quality
tools
16
17
Metal Shelving
Mail Boxes
Power Tools
Circular Saws
Drills
PANELING

Company Profile Lowe's Companies, Inc. is a specialty retailer of building materials and related products for the home construction and home remodeling markets. Lowe's has been a publicly owned company since October 10, 1961. Its stock has been listed on the New York Stock Exchange since December 19, 1979, and on the Pacific Stock Exchange since January 26, 1981, under the ticker symbol of LOW.

Lowe's operates a total of 214 retail stores 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 typical store stocks approximately 8,000 of these. These items are sold to two major customer groups—Professional Buyers and Retail Customers—within the same store facility. The average store last year did $4.1 million in business of which 52% was to the Professional Buyer and 48% to the Retail Customer. The company employed 5950 persons or an average of 27.8 per store at the end of the fiscal year.

Lowe's general office is located in North Wilkesboro, N. C. Regional offices are located there and in Lynchburg, Va., Charlotte, N. C., Louisville, Ky., Montgomery, Ala.

Contents

Cover:
Come, celebrate the New Lowe's! Lowe's is embarked on the most massive change in its history — the RSVP program for most older stores and all new ones. A photographic essay and tour of the new store begins on Page 17.

Lowe's Companies, Inc.
Box 1111
North Wilkesboro, North Carolina 28656
Telephone: 919-667-3111
Telex: 510-922-5737

Lowe's Common Stock
Ticker Symbol: LOW
Trading Exchanges:
New York Stock Exchange
Pacific Stock Exchange

LOWE'S
Companies, Inc. BOX 1111, NORTH WILKESBORO, N. C. 28656
919 667-3111
TWX 510 922-5737

April 15, 1981

Dear Shareholder:

The economic cross currents in the nation last year fostered a very competitive operating environment which, in turn, brought sustained pressure on our operating margins. Simultaneously, inflation placed continuing upward pressure on costs and expenses. Although our earnings declined 24% for the year, we are encouraged by the improving pattern of quarterly earnings comparisons: -15¢ per share in the first quarter, -14¢ per share in the second, -11¢ per share in the third, and -7¢ per share in the fourth. Other positive signs during the year included a 7% increase in sales to retail customers and an encouragingly small decrease of 9% in sales to professional builders. Once again Lowe's increased its market penetration in a difficult economic climate.

A review of the external economic factors is unnecessary, because of the wide publicity given to the recession, except to note that housing starts fell to their second lowest level in ten years, surpassed only by 1975's level. In May 1980 starts fell to their lowest annualized rate in a single month since February 1975, making it the third lowest monthly rate since 1959 when record-keeping began. Against such a background, coupled with a federal policy of fighting inflation by the highest prime rate in history, it was gratifying that our sales declined by just 2%.

The foreboding business climate we anticipated last year came to pass. Today the future appears considerably brighter, partially as a result of the new national administration's announced plans and initiatives to reduce federal spending and taxes, including those on business and consumers. Later in this report, an interview with several security analysts echoes this optimistic outlook.

Highlights of last year's key results follow:

	Change	1980 (000)	1979 (000)
Sales	-2%	$883,614	$904,651
Pre-tax earnings	-23%	36,277	47,331
Taxes on earnings	-22%	17,387	22,376
Net earnings	-24%	18,891	24,955
Depreciation	+3%	10,320	10,064
Cash flow	-17%	29,211	35,019
Cash dividends	+20%	$ 7,814	$ 6,511
Number of stores	+2%	214	209

Lowe's sales in 1980 to both our customer groups--Professional Builders and Retail Customers--exceeded total 1975 company sales. Professional sales in 1980 were augmented by a major program of calling on builders at their job sites. This outreach program, coupled with successful efforts to sell to major regional and national industrial accounts, dampened the effect of the recession on pro sales.

Retail sales benefitted from a repositioning of advertising emphasis including more specific targeting of newspaper tabloid inserts and a modest increase in television usage. The retail credit card's acceptance and usage rose dramatically. Sales on the Lowe's card doubled while use of the bank cards declined marginally. Credit card sales amounted to nearly 18% of total retail sales, a substantial increase over 1979 percentage amounts.

Our most significant new merchandising program in many years got off to an excellent beginning in 1980. Called RSVP (for Retail Sales Volume and Profit), this program of retrofitting 115 present Lowe's stores gives promise of reshaping Lowe's merchandising and selling future with good profit potential. Last year 17 existing stores were retrofitted and approximately one a week is scheduled for completion and re-opening this year, with the remainder to be completed in Fiscal 1982.

Elsewhere in this Annual Report is a selection of photographs of retrofitted stores for those of you who do not have the opportunity to shop one of these exciting new Lowe's stores.

The emphasis is on making the customer's shopping experience more pleasant and more profitable by offering broader assortments and deeper assortments in attractive surroundings. Service and service facilities have been upgraded by reorganization.

The new RSVP sales floor was installed in all new and rebuilt stores last year as well and is the prototype for Lowe's new stores in the future. Twenty new stores are projected for 1981 along with six facilities scheduled for rebuilding and remodeling. By the end of the current fiscal year 90-100 Lowe's stores of the expected year-end total of 230-plus will feature the RSVP floor -- more than 40% of the Company's units. Because the retrofitted stores are a standard 11,100 square feet, the percentage of total square footage retrofitted by the end of Fiscal 1981 will be even greater.

Sales to both customer groups -- encouragingly -- are showing increases in both sales and profit margins. Since the majority of RSVP'd stores are presently in their third or fourth full month of operation, it is still early to project definitely the rates of increase in sales and profit margins by store, by region or by season. However, we are highly optimistic about what the results will mean to Lowe's and its shareholders.

During the past year Lowe's paid cash dividends of $7.8 million, an increase of 20% for the year. In last year's shareholder survey, 75% of our respondents expressed agreement with the comment that the growth rate of dividends is the most important dividend criteria. In that regard, we invite your attention to Pages 72-74, line 10, for our longer-range dividend payment performance record.

Lowe's concentrated in 1980 on these major initiatives:

1. Implementation of the RSVP sales floor plan.
2. Deepening penetration of sales to professional builders.
3. Enhancement of retail selling opportunities, particularly in the credit card program.
4. Controlling financial risk through careful management of our Accounts Receivable asset.
5. Broadening and strengthening of our merchandise line and elimination of slow-moving items.
6. Careful inventory management.
7. Expansion of contact with security analysts and professional investors along with supplemental listing on the Pacific Stock Exchange.
8. Attention to the continuing sound condition of the Company's finances including short-term investment of periodic cash surpluses and the temporary curtailment of new store expansion.

Each of these efforts assisted materially in keeping Lowe's in excellent position to participate fully in the nation's economic recovery. While we do not expect a full-scale recovery in 1981, it is beginning to be apparent that economic conditions are improving. Initiatives by the new President, if coupled with cooperation by the Congress, should result in a re-energized climate for investors and for business, as well as for individuals.

Once again we close with our sincere appreciation to all the Lowe's team--our fellow directors and officers, our shareholders, our employees, our customers, our suppliers, our associates, and our friends, for your confidence, achievements and dedication to Lowe's future progress.

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

Performance Review—Financial Highlights

In thousands, except per share and percentages

		Change	Fiscal 1980	Fiscal 1979
For the year	Sales of products and services	− 2%	**$883,614**	$904,651
	Net earnings(1)	−24%	**18,891**	24,955
	Cash flow	−17%	**29,211**	35,019
At year-end	Total capital invested	+ 1%	**301,728**	299,899
	Shareholders' equity	+ 7%	**170,175**	159,097
	Debt	− 7%	**56,086**	60,205
	Number of shares		**13,022**	13,022
Per share	Earnings(1)	−24%	**$ 1.45**	$ 1.92
	Dividends paid	+20%	**.60**	.50
	Shareholders' equity—year-end	+ 7%	**13.07**	12.22
	Cash flow	−17%	**$ 2.24**	$ 2.69
Measurements[2]	Asset turnover (Sales/asset dollar)		**2.95**	3.35
	Return on sales (Earnings as % of sales)		**2.14%**	2.76%
	Return on assets		**6.30%**	9.25%
	Leverage factor (Asset dollars/equity dollars)		**1.89**	1.92
	Return on equity		**11.87%**	17.74%
	(1) FIFO Net earnings	−23%	$22,285	$28,772
	FIFO Earnings per share	−23%	1.71	2.21

(1) On July 17, 1979, the Internal Revenue Service released proposed amendments to the regulations relating to the financial statements conformity requirements incident to the LIFO method of inventory accounting. These proposed amendments provide that "supplemental or explanatory financial disclosure" using another inventory method can be disclosed. In this regard, this condensed earnings statement is shown above using the FIFO method of inventory accounting.

(2) For an explanation of the performance measurement indexes see the Strategic Profit Model explanation in the 21-Year Financial Review located on pages 72 to 74.

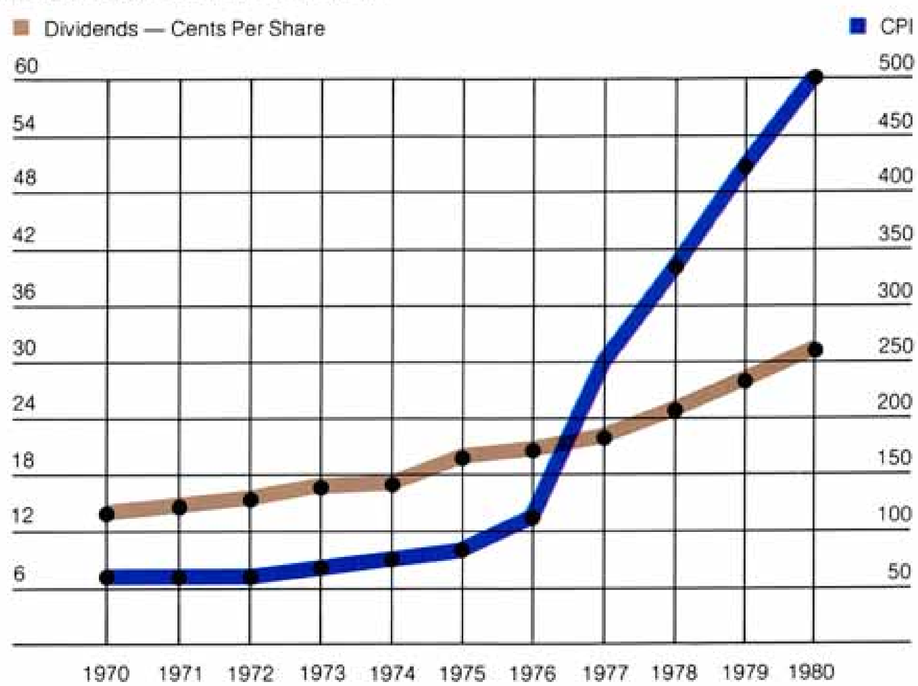
Lowe's Common Stock Dividend vs The Consumer Price Index

A

Fiscal Year	Dividends Per Share	Consumer Price Index
1970	7¢	116.7
1971	7¢	121.8
1972	7¢	125.5
1973	8¢	132.7
1974	9¢	148.0
1975	10¢	162.3
1976	13¢	171.1
1977	30¢	182.6
1978	40¢	204.7
1979	50¢	233.2
1980	60¢	260.5

Lowe's dividend 10.5-Year Compound Growth Rate — 22.7%
CPI 10.5-Year* Compound Growth Rate — 7.9%

*CPI numbers for 1970-1977 are July statistics corresponding to the end of Lowe's fiscal year at that time; numbers for 1978 through 1980 reflect fiscal years ending Jan. 31 of the following calendar year, consequently a 10.5-year rate has been calculated.



Performance Review

Ways to Measure: Stock Performance

The most significant measurement of an investment is how it did against the standard set by the investor—adequate yield in dividends or price appreciation superior to other investments, or potential for quality performance over a longer period of time.

Lowe's is but one of several thousand equity issues available for investment in this country and more still in overseas markets. Useful aids in measuring have been developed over the years. Best known of these indexes is the Dow-Jones average of 30 industrials, the bluest blue chips. More representative and broader is Standard & Poor's index of 500 issues. Broadest to date and growing widely in popularity is the excellent Wilshire 5000, which actually tracts 5,000 issues.

Last year Lowe's outperformed all three of these, as shown in the graphs here. Lowe's stock did better than any of the components of these indexes of companies shown here except one we have added this year, Wal-Mart— which did a whopping four times better.

Increasingly, Lowe's shares are being purchased by overseas investors as a way to participate in the anticipated recovery in American housing and retailing. Measured against the indexes of the major stock markets of the world, Lowe's outperformed them all, London, Paris, Tokyo, and all the others except two. In Singapore, that index was three times the performer that Lowe's was, primarily because of increased activity of companies reflecting the changed attitude of China towards trade with the free world. In Italy, the Milan exchange index did more than six fold better as investors there went to that market to try to beat Europe's highest inflation rate.

While price is important to all investors and a major component of value, growth in equity represented by earnings is the other major part of the whole. Investor attention is directed to the other measurements on this page, including especially the Strategic Profit Model. It is within this chart that we present our comparisons of Profits Per Employee, a good way to measure retailers and a source of pride.

Attention also is called to references to LIFO and FIFO inventory accounting methods. Analysts and others point out that LIFO is a method of insuring that cash flow will not be negatively impacted by phantom inventory profits.

A full discussion of the Strategic Profit Model formula, its variables, and results, is presented on Pages 72-74 where you will find a full, 21-year review of Lowe's performance.

Lowe's believes in accountability in performance. And Lowe's believes that while we may not be the best in every category, which investors may use for measurement, we are certainly among the best.

Lowe's Stock Price Performance vs Selected Indexes

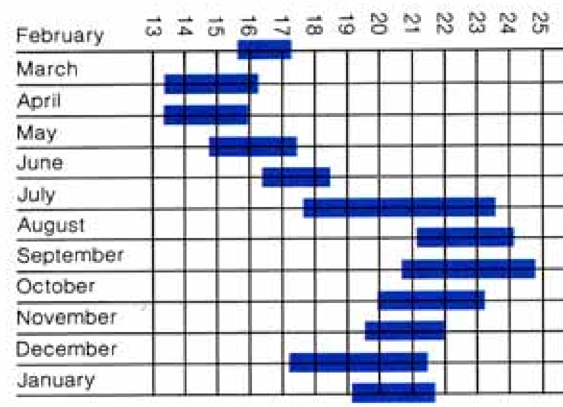
B

Index	% Change 1-31-80 to 1-31-81
Lowe's Stock	+ 17.6%
Dow-Jones 30 Average	+ 8.2
Standard and Poor's 500	+ 13.0
Wilshire 5000	+ 13.2
Building Material Index	− 7.2
General Index	+ 5.8
Specialty Index	− 6.3
Selected World Stock Market Indexes	
France	− 4.5
Germany	− 8.4
Hong Kong	+ 7.7
Italy	+ 119.7
Japan	+ 9.2
London	+ 6.4
NYSE Index	+ 13.2
Singapore	+ 59.8
Switzerland	− 7.9

SOURCES: *Wall Street Journal*, The *Economist* and Wilshire Associates

C

Lowe's Stock Price



Lowe's vs Selected Others

Company	% Change Price Per Share	Price Per Share 1-31-81	Price Per Share 1-31-80	LIFO*** or FIFO	Current* Dividend	1975 Dividend
Lowe's	+17.6%	$20.00	$17.00	L-77	$ .60	$ .10
Building Material Retailers Index						
Wickes	−12.6	13.88	15.88	F	1.04	.68
Hechinger Co.	− 1.3	19.12	19.38	L-75	.12	.09
Evans	−11.7	19.88	22.50	F	1.60	-0-
Wolohan	− 5.5	6.50	6.88	L-74	.32	.05
Payless Cashways	− 2.5	14.88	15.25	L-80	.15	.06
General Index						
Federated	+17.1	31.63	27.00	L-48	1.80	1.22
Carter Hawley Hale	+14.7	19.50	17.00	L-74	1.16	.80
Sears	−10.9	15.25	17.13	L-75	1.36	.93
K mart	−18.1	17.50	21.38	L-75	.92	.24
Penneys	−12.7	22.25	25.50	L-75	1.84	1.16
Dayton-Hudson	− .8	45.38	45.75	L-67	2.00	.66
Wal-Mart	+68.0	30.00	17.83(S)	L-75	.37	.05
Specialty Index						
Color Tile	−17.2	18.63	22.50	L-80	NIL	NIL
Pay 'N Pak	−11.4	12.63	14.25	F	.68	.18
Standard Brands Paint	+10.2	27.13	24.63	F	.72	.30
Stanley Works	− 2.7	17.88	18.38(S)	F	.68	.33
Ryan Homes	− 1.1	21.88	22.13	F	1.30	.20
Black & Decker	−18.6	$18.13	$22.25	L-79	$ .76	$ .40

*1/31/81
**Year-End, or last available four quarters
***Year LIFO Adopted

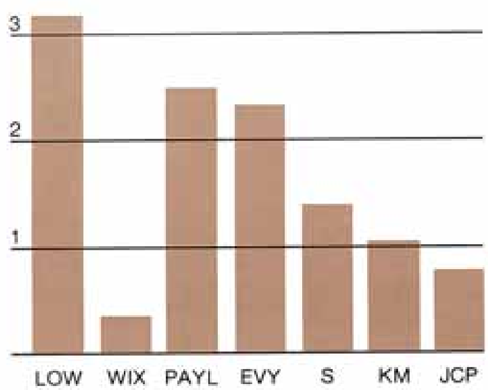
(A) Last four available quarters
(B) Three years only.

SOURCES: The *Wall Street Journal*, Company Annual Reports and Quarterly Reports, S & P Reports

Profit Per Employee

H

(Dollars in Thousands)



Profitability Model

Organization Fiscal Year Ending*	Total Sales (000,000) (1)	Total Profit (000,000) (1)	Total Beginning Assets (000,000) (2)
Lowe's (A)	$ 884	$ 18.9	$ 300
Wickes (B)	2,870	15.9	888
Payless (A)	383	11.0	159
Evans (A)	1,463	41.4	788
Sears (B)	16,865	606.0	16,422
K mart (B)	14,407	260.5	5,642
Penneys (B)	$11,353	$160.0	$ 5,077

* All fiscal years end 1/31, except Payless which ends 11/30 and Evans which ends 12/31.

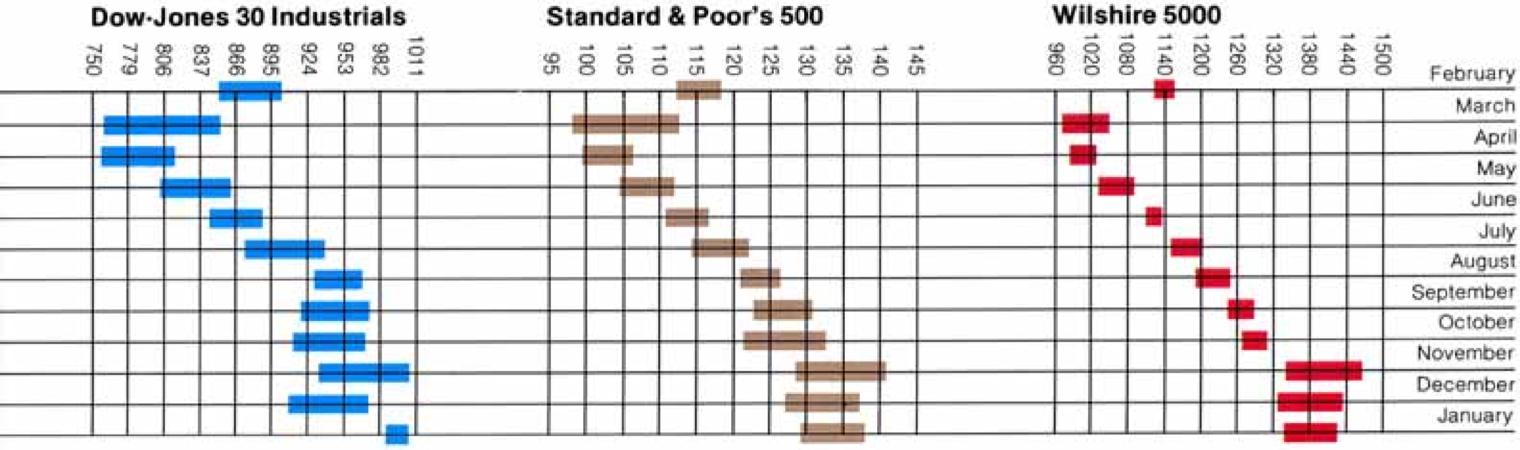
(A) Fiscal 1980 Figures
(B) Fiscal 1979 Figures

Lowe's Is a Competitive Investment Opportunity

D

E

F



G

5 Yr. CGR Dividend	Current Dividend Yield	Current Payout Rate*	Current P/E Ratio*	5-Yr. Hi-Lo P/E Ratio	1980 Earnings Per Share**	Fiscal 1975 Earnings Per Share	5-Yr.** CGR EPS	1980 Sales** (000,000)	Fiscal 1975 Sales (000,000)	5 Yr.** CGR Sales
43.10%	3.00%	41%	13.79	17-9	$1.45			$ 883.6	$ 388.3	17.87%
					1.71(C)	$1.21(C)	7.16%(C)			
8.87	7.49	92	12.28	12-5	1.13	1.43	NIL	2,870.0	1,115.0	20.82
10.06(B)	.63	8	12.49	14-9	1.53(A)	.34	35.10	166.5(A)	49.0	27.72
NM	8.05	54	6.71	8-5	2.96	.76	31.25	1,463.0	774.0	13.58
44.96	4.92	229	46.43	46-8	.14	.27	NIL	99.6	73.0	6.41
20.11	1.01	16	15.66	45-12	.95(A)			382.7	102.0	30.27
					1.16(C)	.43(C)	21.96(C)			
8.09	5.69	40	6.97	12-6	4.54	3.51	5.28	6,300.7	3,713.0	11.16
7.71	5.95	49	8.23	11-7	2.37(A)	1.83	5.31	2,548.5(A)	1,357.0	13.43
7.90	8.92	71	7.94	29-7	1.92	1.65	3.08	16,865.0	13,640.0	4.34
30.83	5.26	44	8.45	17-8	2.07	1.61	5.16	14,407.0	6,884.0	15.92
9.67	8.27	48	5.81	13-8	3.83	3.12	4.19	11,353.0	7,375.0	9.01
24.82	4.41	39	8.93	11-9	5.08	4.08	4.48	4,033.5	1,693.0	18.96
49.23	1.23	21	17.34	19-12	1.73	.45	30.91	1,643.2	236.0	47.42
NIL	NIL	NIL	14.22	18-14(B)	1.31(A)			224.6(A)	46.0	37.32
					1.49(C)	.54(C)	22.51			
30.45	5.38	47	8.70	20-9	1.44(A)	.78	13.05	148.7(A)	61.0	19.51
19.14	2.65	24	9.04	19-9	3.00(A)	2.40	4.56	206.5(A)	115.8	12.26
15.56	3.80	35	9.22	28-9	1.94	.74	21.26	939.8	464.0	15.16
45.41	5.94	58	9.68	10-6	2.26	1.57	7.56	425.9	194.0	17.03
13.70%	4.19%	33%	7.81	17-8	2.32(A)			$1,458.7(A)	$ 654.0	17.40%
					$2.45(C)	$ .85(C)	23.58%(C)			

(C) FIFO Figures
(S) Reflects 2 for 1 stock split adjustment

NM = Not Meaningful
CGR = Compound Growth Rate
P/E = Price of Share divided by previous 12-mos. earnings

Dividend Yield = Yearly Dividend divided by Share Price
Payout Rate = Dividend divided by Earnings per Share

J

Total Ending Assets (000,000)	Total Beginning Equity (000,000)	Total Ending Equity (000,000)	Strategic Profit Model: 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)	(3)	(1)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
$ 302	$ 159	$ 170	2.95	2.14	6.30	1.89	11.89	5,950	$148,571	$3,176
NA	278	NA	3.23	.55	1.79	3.19	5.72	40,000	71,750	398
173	75	85	2.41	2.87	6.92	2.12	14.67	4,400	87,045	2,500
888	288	348	1.86	2.83	5.25	2.74	14.38	17,550	83,362	2,359
NA	7,467	NA	1.03	3.59	3.69	2.20	8.12	424,000	39,776	1,429
6,079(P)	2,185	2,343	2.55	1.81	4.62	2.58	11.92	245,000	58,694	1,063
$6,821	$2,520	$2,639	2.24	1.41	3.15	2.01	6.35	206,000	$ 55,112	$ 777

(P) Preliminary
NA Not Available
(1) Latest Year Ending Figures
(2) Beginning Assets
(3) Beginning Shareholders' Equity

(4) Total Sales divided by Beginning Assets
(5) Total Profit divided by Total Sales
(6) Total Profit divided by Beginning Assets
(7) Beginning Assets divided by Beginning Equity
(8) Total Profits divided by Beginning Equity

(9) Year-End Total
(10) Total sales for Year divided by number of employees to nearest $100
(11) Total Profit after taxes divided by number of employees

Performance Review

What Lowe's Does

Lowe's is a retailer of home building materials. The merchandise line is designed to fulfill the ever-changing needs and demands of two customer groups: the professional builder and the retail consumer. Even now Lowe's is undergoing a dramatic revamping of our stores, called RSVP, which will help better meet the needs and demands of both the professional builder and the growing retail consumer market.

During Fiscal 1980, 11.4 million customers were served by Lowe's stores as compared with 11 million customers in 1979. The average sale per customer was $77.67, down 5.3% from the 1979 average ticket of $82.02.

By the end of Fiscal 1980, 214 Lowe's stores were serving the needs of customers in 19 states located principally in the South Atlantic and South Central regions of the United States. Lowe's stores primarily serve the needs of smaller markets, typically containing about 45,000 households in a community. The company's success lies in its ability to successfully serve the needs of those customers living in the many smaller cities and towns located in Lowe's Land.

What Lowe's Stores Are

Lowe's stores combine the merchandise, service and function of a lumber yard, a building material supplier, a heating and cooling, plumbing and electrical supply center, a hardware store, an appliance store, a home electronic center, a hard goods discounter, and a professional marketing company. Lowe's stores are full service home building supply centers offering our customers both professional and retail structural lumber, building commodities and millwork, seasonal products and appliances and specialty building materials. Structural lumber which includes dimensional lumber, framing, studs, joists, etc., has historically counted for approximately 27% of Lowe's total volume. Building commodities and mill work such as gypsum board and asphalt roofing have accounted for an average 25% of Lowe's total sales volume while seasonal products and appliances such as house, yard and farm supplies and kitchen ranges and refrigerators have provided approximately 15% of Lowe's historical sales volume. Plumbing, electrical, heating and cooling equipment and other special building materials have made up the largest single product group in Lowe's, recording approximately 30% of total sales volume in recent years.

Each is an essential component of the individual stores' (Lowe's true profit centers) total performance and the absence of any would detract from the "total home improvement center" concept which is the key to Lowe's success in the marketplace.

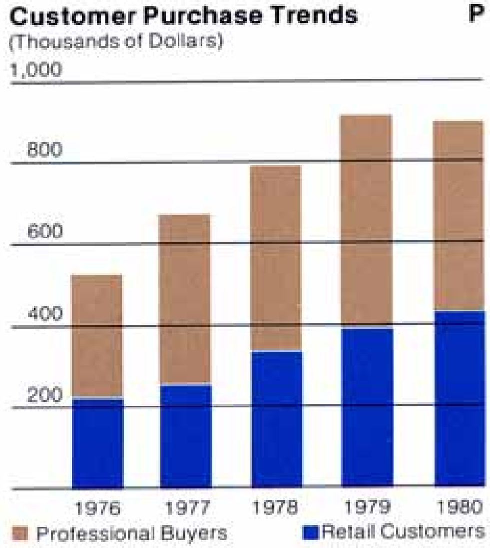
Customer Purchase Trends

Lowe's sells to two distinct groups of customers; the professional builder and the retail consumer. The RSVP concept is designed to improve the manner in which both of these important buyer groups are served.

The professional builder, who has historically accounted for approximately 56% of Lowe's total sales volume over the past five years, is being served in a separate area of the new RSVP store, designed specifically with his needs in mind, and is served by a group of professional sales persons trained in his specific needs.

Retail customers, who historically account for the remaining 44% of Lowe's total sales, are the major focus of the RSVP program.

Customer Purchase Trends



P

(Thousands of Dollars)

Fiscal Years(1)
Category
Professional Buyers
Change(3)
Retail Customers
Change(3)
Totals
Change(3)

Merchandise Sales Trends

Since 1976 nearly all categories of Lowe's merchandise have attained compound annual growth rates in excess of 10%. Only Home Entertainment merchandise (plus 6.3%) and Special Order Sales (plus 9.8%) grew at less than a 10% annual rate. Home appliances recorded the strongest growth with a 20.6% compound rate, closely followed by plumbing, heating, electrical and cooling products which grew from 1976 to 1980 at an annual rate of 18.2%.

Since 1976 the sales mix of Lowe's merchandise has varied little. Building material and hardware have accounted for approximately 46% of the total sales volume and comprised the single largest element of the sales total. At the other end of the spectrum, home entertainment materials such as television and stereos comprised a little over 2% of the total sales mix declining slightly from 2.8% in 1976 to 2.1% in 1980.

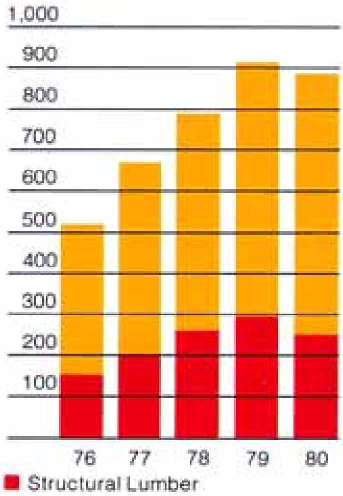
While total sales volume for 1980 was off only 2.3% from the previous year, and marked the only year of decline for the period 1976 through 1980, the changes in sales levels of individual merchandise categories vary drastically from a 12.6% decrease in Structural Lumber sales to a 14.8% increase in Appliance sales. A relatively minor overall change in total sales volume is a tribute to the inherent advantages of a total home material center merchandise line which aids in reducing the effect of the recent slump in home building.

(Thousands of Dollars)

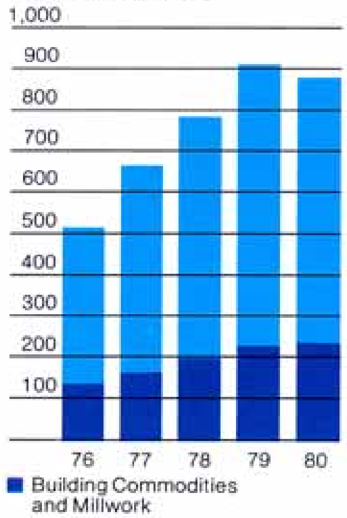
Fiscal Years(1)
Category
1. Structural Lumber
2. Building Materials & Hardware
3. Plumbing, Electrical, Heating & Cooling
4. Appliances
5. Home, Garden, Farm Supplies
6. Home Entertainment
7. Mobile Homes
8. Special Order Sales
Totals

Lowe's Is a Building Materials Marketer

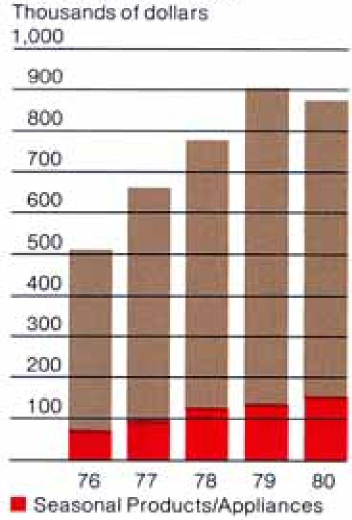
Structural Lumber
Percent of Total Sales
Thousands of Dollars



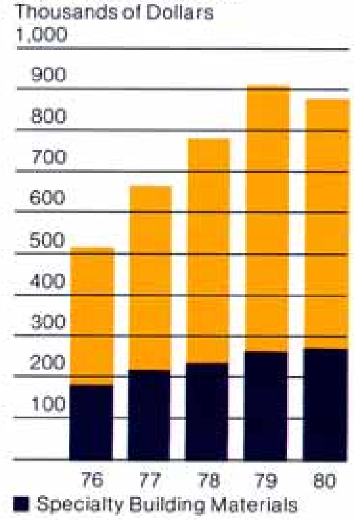
Building Commodities and Millwork
Percent of Total Sales
Thousands of Dollars



Seasonal Products/ Appliances
Percent of Total Sales
Thousands of dollars



Specialty Building Materials
Percent of Total Sales
Thousands of Dollars



Q

1976		1977		1978		1979		1980		
Sales	**% of Total**	**Sales**	**%of Total**	**Sales**	**%of Total**	**Sales**	**% of Total**	**Sales**	**% of Total**	**C.G.R. (2)**
$308,457	59	$411,613	62	$468,983	59	$511,472	57	$463,839	52.5	10.7%
+47%		+33%		+14%		+ 9%		− 9%		
$210,938	41	$250,012	38	$324,142	41	$393,179	43	$419,775	47.5	18.8%
+18%		+19%		+30%		+21%		+ 7%		
$519,395	100	$661,625	100	$793,125	100	$904,651	100	$883,614	100	14.2%
+34%		+27%		+20%		+14%		−2%		

(1) Fiscal years ending January 31 of following calendar year.
(2) Compound growth rates, 1976 through 1980.
(3) Percent change from previous year.

R

1976		1977		1978		1979		1980			
Sales	**% of Total**	**Sales**	**% of Total**	**Sales**	**% of Total**	**Sales**	**% of Total**	**Sales**	**Change (2)**	**% of Total**	**C.G.R. (3)**
$ 98,940	19.1	$133,887	20.2	$168,067	21.0	$190,070	21.0	$166,074	−12.6%	18.8	+13.8%
239,363	46.1	312,125	47.2	371,778	46.9	415,287	45.9	407,103	− 2.0%	46.1	+14.2%
46,960	9.0	59,946	9.1	67,560	8.5	81,110	8.9	91,601	+12.9%	10.4	+18.2%
26,787	5.2	31,827	4.8	38,659	4.9	49,394	5.5	56,701	+14.8%	6.4	+20.6%
36,559	7.0	41,801	6.3	50,615	6.4	63,987	7.1	65,989	+ 3.1%	7.5	+15.9%
14,722	2.8	14,494	2.2	17,519	2.2	19,408	2.2	18,813	− 3.1%	2.1	+ 6.3%
3,086	.6	2,135	.3	464	n.m.	316	n.m.	249	−21.2%	n.m.	n.m.
52,978	10.2	65,410	9.9	78,463	9.9	85,079	9.4	77,084	− 9.4%	8.7	+ 9.8%
$519,395	100	$661,625	100	$793,125	100	$904,651	100	$883,614	− 2.3%	100	+14.2%

(1) Fiscal years ending January 31 of following calendar year
(2) Change from previous year
(3) Compound growth rates 1976-1980
n.m. = Not meaningful

SOURCE: Company Financial Data

Performance Review

Sales Floor Size, Productivity Performance

During 1980 Lowe's increased the total sales floor area only slightly as a result of the slowed expansion dictated by the economic conditions experienced during the year. Lowe's did not stand still, however, during 1980 and, instead, devoted efforts to making the sales floor more effective for merchandising of the product line in existing square footage through the RSVP program.

In the year 253,000 square feet of Lowe's total sales floor area were conformed to the RSVP floor plan. While it is far too early to tell the results of this undertaking it is interesting to note that the retail sales per square foot increased during 1980 and was one of the few productivity measurement numbers to do so. Lowe's continues to believe that a more important measure is the amount of sales per employee as on pages 2-3.

Store Sales Performance

As shown on the chart at right the average Lowe's store recorded sales of $4.2 million during Fiscal 1980; a decrease of 6.7% from 1979 levels. Sales to professional builders were off 13% from 1979 falling to an average $2.2 million per store. Retail sales, however, were up nearly 2% averaging $2 million per average store.

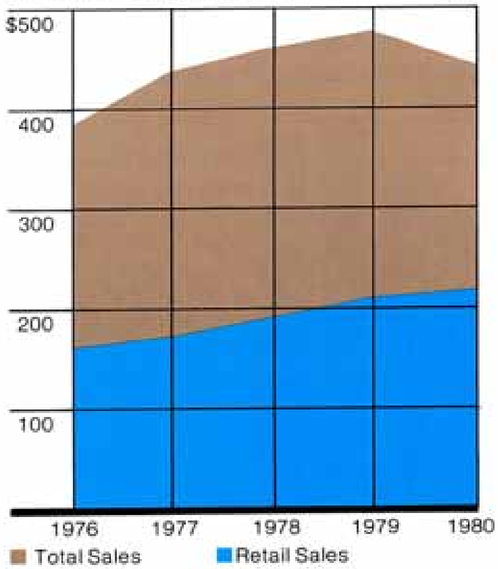
The chart at right shows a much more detailed picture of store growth trends. The majority of 1975, 1976 and 1977 stores are smaller nonstandard size stores acquired through takeover of existing facilities. Of the 40 stores opened in 1974 and 1978, 34 were standard 11,100 square foot stores and are candidates for the RSVP retrofitting program. The new stores opened in 1980 were outfitted with the RSVP floor plan when they were constructed.

Lowe's Properties

Of the 214 Lowe's stores in operation at the end of the 1980 fiscal year, 135 were owned and 79 were leased. The company owns its general offices in North Wilkesboro, N. C., two product distribution warehouses: one in North Wilkesboro and the other in Hernando, Miss., and two lumber distribution warehouse facilities, in Thomasville, N. C., and Manassas, Va. A typical Lowe's store is located on a 3-5 acre tract of land and has an average of 18,000 square feet of warehouse space in addition to the sales floor.

Sales Per Square Foot

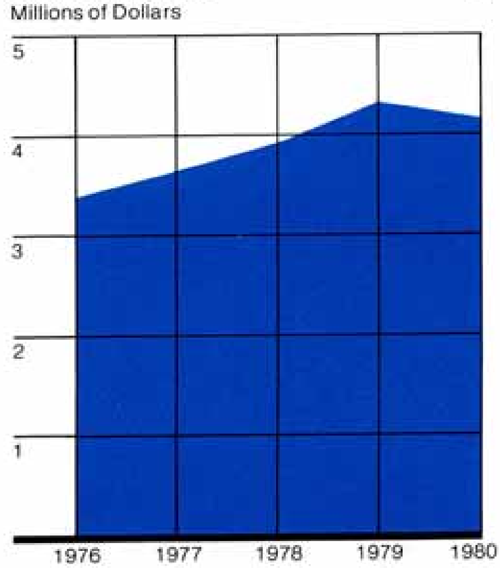
S



Sales Per Store

Millions of Dollars

U



Sales Floor Size and Producti

	1 Stores Open at End of Year
1976	154
1977	180
1978	199
1979	209
1980	214

Store Sales Performance— By Age of Store

A	B	STORES Number of Stores Opened by Year Since 1974
105	104	Established stores (1)
20	20	1974 stores
16	16	1975 stores
13	13	1976 stores
27	23	1977 stores
20	20	1978 stores
13	13	1979 stores
6	6	1980 stores
		TOTALS: Sales
		Number of Stores

A — Original number
B — Fiscal 1980 — still in operation 1-31-81

Square Footage by Demi-Decade

W

1960 AND BEFORE	
Stores opened	16
Stores closed	1
Stores net	15
Stores to date	15
Sq. footage opened	74,880
Sq. footage closed	3,200
Sq. footage during period	71,680

1961 — 1965	
Stores opened	23
Stores closed	0
Stores net	23
Stores to date	38
Sq. footage opened	127,857
Sq. footage closed	0
Sq. footage during period	127,857
Sq. footage to date	199,537

1966 — 1970	
Stores opened	31
Stores closed	2
Stores net	29
Stores to date	67
Sq. footage opened	205,862
Sq. footage closed	7,950
Sq. footage during period	197,912
Sq. footage to date	397,449

1971 — 1975	
Stores opened	74
Stores closed	1
Stores net	73
Stores to date	140
Sq. footage opened	840,501
Sq. footage closed	4,200
Sq. footage during period	836,301
Sq. footage to date	1,233,750

1976 — 1980	
Stores opened	8
Stores closed	
Stores net	7
Stores to date	21
Sq. footage opened	823,65
Sq. footage closed	69,28
Sq. footage during period	754,36
Sq. footage to date	1,988,11

Lowe's Operates Retail Stores

T

2 Weighted Average Stores Open During Year(1)	3 Sales Floor Sq. Footage End of Year Total	4 Average Sales Floor Size End of Year	5 Sales Floor Weighted Avg. Sq. Ft. During Year(2)	6 Total Sales (000)	7 Retail Sales (000)	8 Total Sales Per Sq. Ft. (3)	9 Retail Sales Per Sq. Ft. (4)
148.0	1,383,000	8,981	1,329,188	$519,395	$210,938	$391	$159
168.3	1,619,000	8,994	1,513,690	661,625	250,012	437	165
185.8	1,817,000	9,130	1,696,354	793,125	324,142	468	191
202.4	1,913,419	9,241	1,870,378	904,651	393,179	484	210
211.9	1,988,112	9,290	1,968,551	$883,614	$419,775	$444	$213

(1) Stores open at beginning of year; plus stores opened and closed during year computed by adding total store months of operation for new stores and closed stores and dividing by 12.
(2) Column 2 x Column 4. (3) Column 6 divided by Column 5. (4) Column 7 divided by Column 5.

V

Thousands of Dollars, Rounded Totals

Fiscal 1976		Fiscal 1977		Fiscal 1978		Fiscal 1979		Fiscal 1980		Sales Per Store CGR(2)
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	
$408,539	$3,891	$485,262	$4,622	$532,674	$5,122	$561,476	$5,399	$526,784	$5,065	6.8%
63,717	3,186	76,911	3,846	91,282	4,564	96,211	4,810	82,216	4,111	6.6%
32,196	2,012	39,524	2,470	48,139	3,008	53,853	3,366	48,748	3,047	10.9%
14,943	1,149	30,716	2,363	36,257	2,789	39,454	3,035	39,319	3,025	8.6%
		29,212	1,082	68,988	2,555	80,213	3,085	73,967	3,216	12.2%
				15,785	789	62,449	3,122	65,210	3,261	4.5%
						10,995	846	34,878	2,683	
								12,492	2,082	
$519,395	$3,373	$661,625	$3,655	$793,125	$3,965	$904,651	$4,267	$883,614	$4,110	
154		181(1)		200(1)		212(1)		(215)(1)		

(1) The number and average sales volume of established stores have been reduced appropriately for comparative purposes reflecting closing of stores during the reported periods, including one store burned and not reopened during Fiscal 1980.

(2) Annual compound growth rates through 1980, from 1976 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, the 1976 new stores from 1977, 1977 new stores from 1978 and 1978 new stores from 1979, all through 1980.

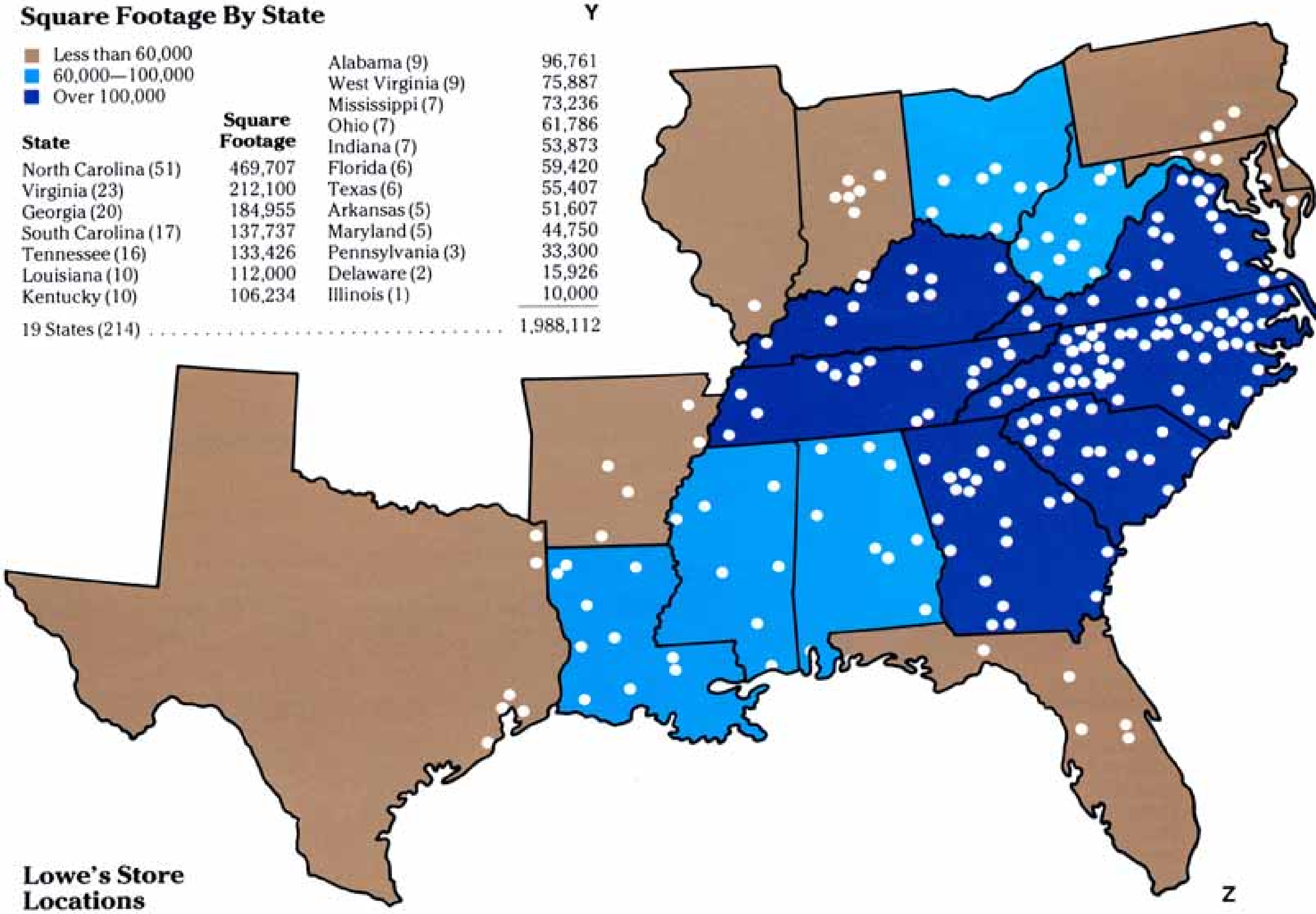
Lowe's Average Store Sales Trends

X

YEAR	Average Stores Open During Year (1)	Pro Sales Per Average Store (000)	Retail Sales Per Average Store (000)	Total Sales Per Average Store (000)
1976	148.0	$2,084	$1425	$3,509
1977	168.3	2,446	1485	3,931
1978	185.8	2,524	1745	4,269
1979	202.4	2,527	1943	4,470
1980	211.9	$2,189	$1981	$4,170

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

Square Footage By State



- Less than 60,000
- 60,000—100,000
- Over 100,000

State	Square Footage
North Carolina (51)	469,707
Virginia (23)	212,100
Georgia (20)	184,955
South Carolina (17)	137,737
Tennessee (16)	133,426
Louisiana (10)	112,000
Kentucky (10)	106,234
Alabama (9)	96,761
West Virginia (9)	75,887
Mississippi (7)	73,236
Ohio (7)	61,786
Indiana (7)	53,873
Florida (6)	59,420
Texas (6)	55,407
Arkansas (5)	51,607
Maryland (5)	44,750
Pennsylvania (3)	33,300
Delaware (2)	15,926
Illinois (1)	10,000
19 States (214)	1,988,112

Lowe's Store Locations

NORTH CAROLINA
Albemarle
Asheboro
Asheville
Boone
Burlington
Cary
Chapel Hill
Charlotte #1
Charlotte #2
Charlotte-North*
Durham
Elizabeth City
Fayetteville
Forest City
Franklin
Gastonia
Goldsboro*
Greensboro
North Greensboro
Greenville
Hendersonville
Hickory
High Point
Jacksonville*
Kannapolis
Kinston
Lincolnton
Lumberton
Monroe
Morganton*
Mount Airy
Murfreesboro
New Bern
North Wilkesboro
Raleigh
Reidsville
Rockingham
Rocky Mount*
Salisbury
Sanford
Shelby
Sparta
Statesville
Washington
Waynesville
Whiteville
Wilmington
Wilson
Winston-Salem*
Winston-Salem Metro
Zebulon

GEORGIA
Albany
Athens*
Augusta
Brunswick
College Park
Columbus
Decatur
Doraville
Gainesville
La Grange
Macon
Marietta
Moultrie
Rome
Savannah
Smyrna
Thomasville
Thomson
Valdosta
Warner Robbins

SOUTH CAROLINA
Aiken
Anderson
Charleston
Columbia
Easley
Florence
Gaffney
Greenville
Greenwood
Laurens
Manning
Myrtle Beach
Orangeburg
Rock Hill
Spartanburg
Sumter
West Columbia

TENNESSEE
Bartlett
Chattanooga
Clarksville
Cleveland
Cookeville
Dyersburg
Gallatin
Jackson*
Johnson City*
Kingsport
Knoxville
Lebanon
Maryville
Morristown
Murfreesboro
Nashville

KENTUCKY
Corbin
Danville
Elizabethtown
Frankfort
Lexington
Louisville*
Richmond
Paducah
Paintsville
Pikeville

LOUISIANA
Alexandria*
Baker*
Baton Rouge
Bosier City*
Lafayette*
Lake Charles
Leesville
Natchitoches
Shreveport
West Monroe

ALABAMA
Auburn/Opelika
Dothan
Gadsden
Huntsville
Mobile*
Montgomery
Muscle Shoals
Prattville
Tuscaloosa

WEST VIRGINIA
Charleston
Fairmont
Huntington
Matewan
Morgantown
Summersville
Teays Valley
Oak Hill
Princeton*

MISSISSIPPI
Greenville
Greenwood
Gulfport
Hattiesburg
Jackson
Meridian
Tupelo

OHIO
Athens
Belpre
Cincinnati
Circleville
Lancaster
Springfield
Wheelersburg

INDIANA
Clarksville
Franklin
Indianapolis
West Indianapolis
Lawrence
New Castle
Westfield

FLORIDA
Gainesville
Inverness
Maitland
Orlando
Pensacola
Tallahassee

TEXAS
Angleton
Baytown
Liberty
Longview
New Caney
Texarkana

ARKANSAS
El Dorado
Jonesboro
Little Rock
Pine Bluff
West Memphis

MARYLAND
Cumberland
Easton
Frederick*
Hagerstown
Salisbury

PENNSYLVANIA
Hanover
Lancaster
York

DELAWARE
Dover
Wilmington

ILLINOIS
Marion

*Indicates store with RSVP floor plan

Lowe's Feature Stories

Real Estate -the unknown and the backbone

One of Lowe's least-visible departments is the one charged with the responsibility of getting things started—the Real Estate and Expansion team headed by Vice President Wade Dupree. Relatively small in numbers, it spends a large capital budget and is responsible for providing and maintaining the places where the Company does business.

With the Company's traditionally aggressive expansion program back in high gear in 1981, the Real Estate Department typically would have its hands full. But this year and next it has an added major assignment of vital importance to the Company—retrofitting 100 older stores with the RSVP sales floor.

Real Estate is structurally organized into six areas:

1. Engineering and construction, headed by Archie Johnson, preparing all the plans and supervising construction.

2. Expansion, headed by Ken Brooks, locating new store sites and buying the land.

3. Accounting, headed by Brian Robbins, keeping the costs, reviewing budgets and maintaining personnel records.

4. Store planning, headed by Troy Harmon, implementing the store plans and physically setting up the stores.

5. Safety and security, headed by George Hart, security systems, safety systems, disaster control, claims and insurance.

6. Operations, headed by Rome Christie, maintainence of vehicles, equipment, tools and coordination between the entire department and all other parts of the company.

Real Estate's two big jobs in the current and following years are best categorized into two activities: new expansion and retrofitting.

'. . . Real Estate has a major assignment of vital importance—RSVP . . .'

Lowe's follows its techniques of successful past expansion and weds them to the best modern techniques of professional research. Successful Lowe's stores have first been located successfully.

The Company looks to its present market areas and the perimeter of its area to find candidates for placement of new stores. When a list of locations is submitted for approval, the candidate cities and towns have been rigorously screened after consideration of market statistics, effects on merchandising and supply systems, competition and probability of success within the proposed market area. The list gets numerous reviews and refinements and when approved it goes to field personnel for a review of possible locations. Typically a dozen sites are found within each target city.

Ken Brooks, Brian Robbins, George Hart, Rome Christie, Wade Dupree, Archie Johnson and Troy Harmon guide the Real Estate Department.

Lowe's standards are for a minimum of five acres. The possible sites narrowed, first to six and then to three, which are ranked as prime and two alternates. Dupree and Dwight Pardue, executive vice president for store operations, make the final site selection and it

This is a good place to raise a family

The diversity from Altoona, Pennsylvania, to North Wilkesboro, North Carolina, to Angleton, Texas is rich and surprising. It's the area of Lowe's Land.

None of the 200-plus stores are average but some are sort of typical, in sort of typical towns. Lowe's Land is not New York, San Francisco nor Dallas. It is not Worth Avenue, nor Rodeo Drive, nor Fairlane Town Center.

It is a more typical America where most of us live and work, go to school and church and to the movies and the pizza parlor and listen to country music. That's typical Lowe's Land.

It's Johnson City, Tennessee, at the edge of the Smokies. It's Athens, Georgia, where the TV version of "Breaking Away" was filmed. It's Muscle Shoals, Alabama, a famous TVA dam site. It's Marion, Illinois, as near to Birmingham as it is to Chicago.

The Lowe's stores in these typical cities have been open since the early '70s except for Marion which opened in 1979. Last year they each had sales of about \$4.1 million, the Lowe's average. Of this, 48% was in sales to retail customers and 52% was to professional builders. These typical stores employ about 25 people fulltime. They serve markets of about 45,000 households within 15 to 20 miles of the stores.

People living in the area work at places like Texas Instruments in Johnson City and at Westinghouse, DuPont and General Time in Athens or at the University of Georgia, where they will talk a long time about their national championship. In Marion they will likely work at the prison or the state hospital or on a farm and in Muscle Shoals they may commute to work in nearby Florence or Sheffield.

In addition to Lowe's they will shop at their numerous strip shopping centers or at the regional mall which may have a Sears or Penney's. All of the towns have a K mart except Marion which is delighted with its Wal-Mart store. On Wednesday nights and Sunday mornings they will likely be attending any of most numerous Baptist or Methodist churches. In Johnson City the young people may be attending East Tennessee State University or in Marion they will be driving to a nearby junior college or up the road to Southern Illinois University at Carbondale. All but Muscle Shoals are county seats; it flowered too late to achieve that fame, beaten out early by Tuscumbia. They all read their local evening newspapers called the Press-Chronicle, the Banner-Herald, the Times-Tri-Cities Daily, and the Republican. The golden arches glow in the night.

And more binds the folks of these communities together than divides them. Most will gladly tell us that they believe wholeheartedly that "this is a good place to raise a family." It is. It's Lowe's Land.

then goes to Leonard Herring, Lowe's president, for approval.

With top-level approval, the purchase is made and the other sections of Dupree's department swing into action appropriately.

Lowe's will set about designing and building not just a store but all of this:

13,250	square feet of sales floor
2,250	square feet of offices
17,500	square feet of warehouse
6,000	square feet of loading docks and adjacent storage
11,250	square feet of accessory structures for storage
50,250	square feet total.

The front will contain 77 paved parking spaces and the paving will continue beside the store to the rear of the building. Behind that the remainder of the five acres will be paved with stone. All of the property will be fenced for security and will be lighted with security lights. A double-faced sign will be installed near the road and a large LOWE'S sign will be installed on the front of the building with the L measuring 10 feet high.

The elapsed time from getting on the approved list until the site has been purchased is typically two months. That is followed by a full nine months from beginning of preparation of drawings until grand opening.

Presently the system for selecting new locations is undergoing another advance in technique with the development of a 15 to 18 point Fit Chart for evaluation. A site will have to meet these specific criteria to get on the list and these will have to change or diminish to force a candidate location off the list. The services of a trained graduate geographer and professional market researcher have been added to the staff to increase the success probability of site selection.

With expansion, the Real Estate Department is faced with finding sites, building and opening new stores. Its other big job is a retrofitting problem involving older stores—apart and aside from its heavily-construction orientation.

With RSVP the sales floor is nearly stripped and a new one constructed—while regular business continues in the store—in place. This year the schedule calls for about one a week to be opened on the average and it takes 10 weeks from beginning to re-grand opening.

RSVP involves coordination between Real Estate and the other departments of Lowe's directly related to the project—store operations, merchandising and finance.

Real Estate is charged with taking ideas generated elsewhere and translating them into a form where the ideas can be implemented to present an entirely new selling format to customers.

Last year when the Morganton, N. C., was the prototype for RSVP, the department employed 38 people. Today it employs 77, reflecting the degree of gearing-up necessary to go to this year's program of 50 retrofitted stores. Not all who worked on RSVP are Lowe's employees, however. Many are hired locally—an average of 6 per city—and another 10 to 15 work on the project through sub-contractors. One or two Real Estate department staffers will be in each store during the 10 weeks needed to install RSVP. Existing store personnel generally are not called on to help because they are continuing to operate the day-to-day business.

Engineering section personnel will be involved from Week 1 through Week 6. Store planning will have someone on the site working from Week 2 or 3 through Week 10. The sub-contractors are usually finished by Week 9. Two to three store planning people finally stock the shelves, display it attractively, and price it. Rome Christie's crews are generally the last ones out of the store on the day of the re-grand opening, turning the sparkling new store back to the care and keeping of the manager and his staff. Ten weeks from a time when it looks like disaster has been wreaked to a beautiful new selling floor.

Dupree has 10 crews in the field each week this spring; there will be several more than that by July when the program hits its 1981 peak and best advantage can be taken of good weather.

The objective for the year which "we certainly will achieve," Dupree says is this:

50	stores retrofitted with RSVP
20	new stores with RSVP floors
3	new stores in existing markets which Lowe's terms "rebuilds"
3	remodelings where major construction will be accomplished and RSVP floors installed
76	stores getting major attention.

The three remodelings are planned in Augusta and Columbus, Ga., and Columbia, S. C. The three rebuilds are scheduled for Sumter and Anderson, S. C., and Leesburg, Va. Dupree points out that some of the new stores may be acquisitions or takeovers. Traditionally Lowe's has added a small percentage of its stores this way. Last year four stores, all in Texas, were acquired. Criteria for an acquisition include a minimum of four acres, 25,000 square feet of enclosed space with a minimum of 10,000 square feet of selling space which can be created or built.

Seems sort of appropriate that a building materials business would be so heavily into do-it-yourself building. Must be good business like the individual do-it-yourselfer has found out.

Credit: Nothing mysterious, just a lot of common sense

Holding the credit reins of a major retailer successfully during uneasy economic times means keeping a steady hand, and . . . well, giving credit where it's due.

"I don't think there's anyone out there waving a magic wand making things happen—good or bad. It takes a lot of luck with some good guesses," says Arnold Lakey, vice president-credit management, and manager of Lowe's nine-person Corporate Credit Department.

Its task is to qualify professional builders for credit, identify shaky accounts and help collect those accounts before they become losses. Of balancing credit risk against potential sales

Clyde Monday, credit analyst located in Atlanta, confers with Credit Vice President Arnold Lakey and Dennis Johnson, credit analyst at the General Office.

in a wobbly housing market, Lakey notes, "It is possible to get the job done without having to get up on a desk and stomp your feet."

During the 1980 housing contraction which shoved more builders closer to the brink, Lowe's credit department confined losses from bad debts to a scant 0.34% of total sales. This followed a 0.36% performance in 1979 which was a dramatic decline from a 1975 high of 0.56%.

"And, the consensus in our department is that, from a dollar-loss standpoint, we're going to have another good year in 1981," added Lakey, who took over the department in 1973.

'. . . personal knowledge of the local community . . . that's the key . . .'

What Lakey's staff hasn't done to achieve this remarkable record is tighten credit to the choking point. "The system must be prepared well in advance to adjust to these times," he explained. "I don't think you can sit here and in one day, call every store, tell them to tighten up on credit and expect to get results."

Instead, a network of five credit analysts and a recovery supervisor uses a debt recovery system, established in 1979, beefed up with incentive programs and a gut-level reliance on store and credit managers who really know their communities. It's that personal knowledge of those who use Lowe's accounts receivable asset in the local communities that's the key to prevention of bad debts.

One of Lakey's credit analysts visits each store annually. He, the credit manager of the store and the regional credit supervisor survey each overdue account to turn it into a payment. That's tangible evidence of the Company's interest in keeping losses off a store's balance sheet.

However, once the analyst is convinced a store has done everything possible to collect, then the two-year-old recovery system is put into action. Outside assistance is used although it is expensive. But, Lakey admits, it is effective because collections leaped in 1980. "They were able to find some people who we thought were gone forever," he said. "I see an extension of this entire program in the future."

Lowe's, while not having flexibility in credit policies does have flexibility in decisions on how to implement the policy, flexibility afforded by having the common sense to listen to store employees who know customers personally.

Often the decision to extend credit, Lakey said, "depends a lot on who the store manager is, what his experience has been, who his credit manager is and what his experience has been, and once you gain confidence in them, it means additional sales and profits for the Company."

In tough times, store personnel are told "to be more aware of accounts when they go past due and not just assume the accounts are going to be paid later," he said. "Our policies of credit have not changed during the last three years. I'm not sure we've let the economy play a part in our decisions."

The net result is a kind of stability for the customers. He knows where he stands and where Lowe's stands. When he phones in an order, Lakey wants him to know, "We'll ship; it'll be at a good price; it's good quality; he'll get a statement on the 27th of the month; and he's going to pay by the 10th of the next month." Clear understandings, like good fences, make good friends, good neighbors, and in this case, good customers.

Susan Calloway, advertising coordinator, and Ralph Buchan, standing, research and planning vice president, review recent advertising plans with Tom Smith, market research manager.

Advertising: 30-1 Odds

Advertising and its related communications functions are the province of the Marketing Services Department at Lowe's. Advertising is a profitable investment for Lowe's. Every dollar that goes into it returns better than $30 in retail sales. In fact, that rate of return is the major criterion by which we judge the effectiveness of advertising at Lowe's. Since we began using this measure in the early '70s, Lowe's advertising has achieved this level of performance.

Thirty to one. A pretty good investment in anybody's book. As with all good investments, the steps to success include planning, budgeting and execution. To understand how such dividends are generated by advertising, a closer look at how each step is managed by Marketing Services is needed.

First, get your numbers right. Everything else will fall in place. That's been Lowe's experience. Getting the numbers right is the responsibility of Ralph Buchan, Jr., vice president of market research and planning.

His annual pro forma budget forms the core around which the advertising structure is built. This plan also serves as an overview against which monthly and quarterly spending is evaluated—total company, region by region, and store by store.

A tremendous amount of research goes into planning. In fact, Lowe's has long been noted for our use of research and positioning the Company in the national economy and in the industry. The market research sections of our annual reports are often used by the industry observers as a "ready reference" on trends in the building supply business.

An annual distillation of the pertinent market facts about each market is compiled and distributed to local store managers. "This gives the manager a quick update on where he stands in his market," says Buchan. "It uncovers any significant changes, any broad areas of opportunity that may exist."

This research data, blended with a knowledge of historical performance and applied to a pulse taking of current activity, results in a sound and obviously successful utilization of advertising funds.

If there has been any weakness, it has been in specific continuing research about Lowe's and about Lowe's customers. Steps to remedy this were taken during 1980 when Buchan was given the responsibility of organizing a research department. Tom Smith, educated at Florida State University and trained at General Motors, was hired to head the new department.

'. . . Lowe's staged its largest single TV campaign . . . It worked.'

"The four areas in which we will be concentrating are consumer research, product research, advertising research and market analysis," Smith explains. "Lowe's has clearly defined its position within the market. Further, refinements are aimed at positioning Lowe's in a context that is equally clear—and desirable—to the consumer."

As the annual pro forma is being developed, Sterling Advertising, Lowe's in-house ad agency, is developing the creative plan. The campaigns and themes for the entire year are worked out in an annual creative planning session in November.

Typical of the entire plan was a campaign in June and July. The theme was "Lowe's, My Household Word," a spin-off from Lowe's corporate advertising slogan. Ads were designed around interviews with and pictures of actual

One of the "My Household Word" advertising tabloid inserts featured customer interviews.

Barbara and Ernie, stars of the "My Household Word" television campaign, became familiar in Lowe's Land.

Lowe's customers telling, in their own words, why they shop at Lowe's.

The theme was carried over into TV advertising where, in cooperation with vendors, Lowe's staged its largest single TV campaign.

It worked. The biggest sales month in the Company's history was recorded in July.

"1980 was a year when we got everything together," remarks Henry Church, senior vice president, Sterling Advertising. "Our ad campaigns have more impact because we're consistent across all media. The best example of

Incentives help promote profitable sales

"My family and I have been very impressed with the award program. I allowed my points to accumulate and was pleasantly surprised at the quality and quantity of gifts that I was able to receive. All of the gifts I ordered, with the exception of one, were shipped promptly, and I have been kept informed on the status of this gift. I plan once again to let my points accumulate and I will let my family have a hand in the selection of the gifts."

The new pocket pricer makes pricing attractive and readable.

The foregoing is a paragraph taken from a letter from a Lowe's salesman to Jim Lyall, manager of sales promotion and in-store media. It best summarizes a major portion of Lyall's responsibilities, the promotion of sales through incentive awards.

Sales incentives have always been a lively and vital activity at Lowe's. Everything from cars to fur coats to Caribbean vacations have been offered as carrots to increase sales productivity. The entire program was overhauled last year with the installation of an awards catalog and point system. Employees are now able to choose their own awards and work to accumulate points to achieve their own objective.

One important positive effect is that the incentive program has become a family affair. If the employee's family chooses to supplement their Christmas shopping, they can cash in their points in October. Or if they want to take a grand vacation, they may save up their points for a year, or two. The idea is to make them participants in determining their own rewards.

The other side of Lyall's job involves the use of Lowe's sales floor as an advertising medium. His department supervises the design and installation of posters and other in-store graphics. The in-store medium is used to support Lowe's mass media advertising. Stores are typically provided with promotional kits containing aisle signs, window posters and display toppers with copy and art drawn from monthly advertising themes.

One in-store item that has received particular attention is the price card. Its obvious function is to set the price of the item to which it is attached. Not so obvious is the opportunity it provides to communicate to the consumer. "It is the last shot we get at the consumer before the salesperson takes over," comments Lyall, "and we intend to use it to the best advantage."

To take advantage of this opportunity a pocket pricer has been developed. Made of a durable transparent plastic, the pricer is designed to receive individual inserts (see accompanying photograph) containing a regular retail price card, a product description insert with item numbers and product features, and message insert containing either a special sale price or an institutional message such as "satisfaction guaranteed."

this was the 'Reluctant Handyman' theme in August." Harvey Hackit, the antimated star of the August TV spots, was very popular. Stills were pulled from TV and used in all print advertising as well as on store posters and signs. Harvey will continue to be featured in advertising as a symbol for all do-it-yourselfers.

Newspaper advertising, which is almost entirely controlled by the local store manager, underwent a major change this year. In the past, Sterling produced basic ads which were shipped to the stores each month. The store manager was responsible for merchandising the sales floor and placing the ad in his local paper.

Problems arose when price and item changes were needed to meet local market conditions. With store managers of varying degrees of skill and experience, and with newspapers offering a wide range of capability, it was impossible to maintain a desirable level of quality and consistency.

A major move toward solving the problem came in the form of a modular ad format. Developed by Sterling's Charlotte, N. C. office headed by Jack Patterson, this new modular concept makes ad modification simpler while preserving the appearance and consistency of the ads. It consists of a basic ad, an alternate section and several headlines. All parts are laid out and sized to be interchangeable giving the manager a virtually endless number of combinations.

Harvey Hackit is the star of Lowe's animated "Reluctant Handyman" TV spots.

The quality of Lowe's advertising was confirmed by several regional and national awards in 1980. Billboards received local and regional first place votes by the American Advertising Federation. At this writing, one billboard has been placed in national finals competition. Sterling also received national awards for TV and radio advertising from the Retail Advertising Conference at its annual meeting in Chicago.

Finance Vice President Clayton Griffing, analyst Leon Borchers of Robinson-Humphrey, Atlanta, Merchandising Vice President Ross Burgess, and analyst Steve Leit, Wertheim, New York, share an umbrella on the Morganton analyst trip.

Single-purpose goal: fair value

The single and highly-focused goal of investor relations at Lowe's is to assure the fairest possible evaluation of the Company's shares at all time for the benefit of all investors. This goal has been pursued diligently for the nearly 20 years Lowe's has been publicly-owned. It has been achieved on a continuing basis by the candid and free flow of information about corporate performance and sales and earnings goals. This is the hallmark of Lowe's relationship with its investors—past, present and future.

A review of externally-focused activities in 1980 indicates the range of efforts employed.

Chief among these were significantly increased efforts aimed at enhancing the frequent and periodic contact with security analysts and portfolio managers, who, in the main, are the principal links between Lowe's and its institutional owners and who provide much of the basic research for the individual retail customers of the brokerage houses.

In addition, the Company moved to increase opportunities for its shares to be sold during a maximum number of hours each day, listing them on the Pacific Stock Exchange in San Francisco and Los Angeles which stays open two hours longer than the New York Stock Exchange. The Pacific listing came on January 26, one year, one month and one week after our New York listing.

Three major approaches were used to foster the information flow and to develop it into deep understanding. First was the traditional means of the Annual Report, still regarded as a progressive model of corporate disclosure through the nation and around the world. Last year's "Lowe's 1979" was honored as the outstanding annual report in America for the individual investor with the Nicholson Award from the National Association of Investment Clubs, representing thousands of individual investors. The report was also used by professors of business, accounting, economics and finance in college and graduate school classes from California to Pennsylvania and Ohio to Florida. Lowe's quarterly reports, repackaged and expanded, were also received enthusiastically.

The other two major approaches used were at the ends of two-way streets. In one case, the analysts and portfolio managers came to see us, and in the other we went to see them.

Pacific Stock Exchange listing was attended by Vikki DesCombaz, Lowe's Bob Strickland, Exchange President James S. Gallagher and Lowe's Bill Brantley and William Murphy, Jr.

Leading with strength, what was expected to be a small group was invited to see the new North Charlotte and RSVP'd Morganton stores in June. The response was large and the results were sufficiently encouraging to plan a second field trip. One of the major pieces of fallout from the North Carolina trip in June was the excitement the analysts expressed and the focus they gave to our understanding of what had been created by RSVP. Quite naturally, the analysts saw it not only as beautiful but as a significant profit contributor.

In the challenge of change is opportunity

"The future ain't what it used to be." —**Arthur C. Clarke**

The famed sci-fi writer's words have become a universal truth. Not only has the future changed; but there frequently is less of it than meets the eye.

While we weren't looking, we've been getting older. America is getting gray and that affects our future. One definition of gray is an intermediate position or intermediate condition; perhaps between black and white as in hair, or between young and old as in age. America's majority *is* getting older, and the effect of having relatively fewer young people as a percentage of the whole has profound economic and social consequences, with potentially shattering moral and ethical overtones.

Despite Mr. Clarke's insight, the use of the past is still the truest guide to the future.

While we weren't looking, the Baby Boom of which we were a part, either as members or as contributors, is over. The Baby Boom has moved into the time of young adulthood and family formation. It is nearly mature. And it is beginning to age; not yet, however, achieving middle age or elder status. That's where its parents are today.

Within this decade, the last of the Baby Boom will move into their 20s, joining their older brothers and sisters in their 30s and early 40s. "Ah, yes," as W. C. Fields might say; "ah, yes, 25 to 44, the prime home buying age."

But even the future, like the old gray mare of another folk song, she ain't what she used to be. While we weren't looking the dimensions of our children's future have changed, changing as they were growing up, never to live in the same one we live. Never in so brief a time has so much happened with so profound impact on so many.

The time was 1947, the first full year after American servicemen came home from World War II. The Baby Boom began with predictable vigor and rolled like a juggernaut across America, filling and straining our homes, swelling small towns and big cities alike, diminishing farms by making them into suburbia, crowding our schools, raising our taxes, congesting our streets and highways, and, curiously, both improving and diminishing our diets and nutrition, forever reorienting the social and cultural patterns of generations, and creating undreamed-of new industries and economic opportunities.

The Baby Boom rolled along through the times of Truman and atomic and hydrogen bombs, barely pausing during another war in Korea, through blockade and airlift in Berlin, into an era of queazy peace. It continued through Ike and ileitis, Checkers, Hungary and Sputnik—that Russian contribution that made us focus our eyes on the heavens, and on to Kennedy and his death in Dallas at the height of immolation and upheaval in Vietnam, and then into the era of LBJ and the horror of national ambivalence of purpose.

Then it was over; nearly as suddenly as it had begun:

The 20th Century Baby Boom
1947-1964

Begun in love and joy, hope and peace,
Ended in hate and despair, anguish and war.

This period of great population surge and the potential implicit in a new generation was brought to an end, conquered by a tiny pill, a law liberalizing abortions and by the steadily-rising horror of seeing the deaths of young Americans in the jungles and swamps of Asia every night on the evening news. Along with the pill and a whole new complex of still curious mores, we changed—not necessarily for the better or for the worse. We evolved, the Boomers and their parents, into a today-oriented society; unknowing of very many yesterdays and willing to mortgage many tomorrows. While we weren't looking we changed. The birth rate dropped: zero population growth—young men and women, opting for a revolutionary change from the past, coupled their profoundly sincere questioning about the world of tomorrow, with a new lifestyle, more style than life, more form than substance.

While this changing was swirling about us, we continued to be preoccupied with the job of raising the babies of the Boom, some of whom became strangers in our homes and others who became strangers who left home.

Continuity became the key to emotional as well as physical survival. Crowded schools demanded higher tax rates to build more schools. Sputnik's challenge required more engineers. Norman Rockwell covered the Saturday Evening Post with those now-quaint and nostalgic vignettes of American life in the pediatrician's office. Doctors Salk and Sabin raced each other and the crippling killer we called polio, removing the very word from the lexicon of most-dreaded parental fears. Truancy similarly passed away as a word causing parental worry, to be replaced by delinquency. That was superseded by something more terrifying and devastating—drugs. The mind modifiers and destroyers foretold by George Orwell in *1984* were upon us 15 years early and it wasn't "Big Brother" in control, it was his surrogate, the schoolyard pusher and someone behind him labeled the connection.

It was all over while we weren't looking because we were just too busy. It was difficult raising a family. Certainly Dr. Spock, Dr. Brothers, Dr. Graham, Lowell Thomas, Helen Thomas and Danny Thomas told us so. We were building homes and paying for them. We were clothing the kids in new synthetic fabrics and with an old standby called denim. We were buying TVs which were replacing Grandma as the baby sitter, because Gram was out working too. We were taking the kids to the new output of Hollywood. We were taking them to theme parks and on vacations once regarded as reserved for the super-rich. We were giving them "all I never had" including their 45 and 33 records and 8-track tapes of popular music not knowing these would come to embrace their philosophical and cultural Ph.D. work. We were giving them cars at high school graduation in place of the wrist watch or new suit we might have received ourselves a generation earlier.

And now, the babies have grown up. The oldest, those born to the returning GIs of '46 are 35 years old this year and will be 44 in 1990. Those born in 1953, the year Ike went to Korea and ended the war, are 28 this year. Those who delighted homes in 1961, after Jack Kennedy asked us what we'd do for America, are 20. Even the babies of the Baby Boom, the 1964 crop, are sophomores and juniors in high school—six years away from college graduation and only nine years from entering that magical era of economic acquisition and taxpaying.

Last year the 25-44 age group became 27.9% of the population. By 1985 that age group will total 30.6% of the total and by 1990 it will be 31.9%. Then it begins an inexorable decline as the Boom passes through that age and grows older. In contrast, last year the parents of the Boom, the 45-64 age group, were only 19.7% of the total. Both groups cover 20 years of births and deaths but the parents represent 19.7% and the children represent 27.9%. By 1985 the 45-64 parent group will have declined to 19.0% while the children will be 30.6%. And then in 1990 the parents will comprise only 18.9% of the total and the children will be 31.9%.

Significantly then, the Boom generation will be moving into the post-44 group and it will start rising again—to 20.4% in 1995. The market will have matured. Industries living under its aegis will be mature, too. The Boom generation will continue to progress the age categories until it is gone—sometime around the year 2040.

A book a few years back, *The Future File,* was dedicated by its author "to the younger readers of this book—the senior citizens of the early 21st century."

The ramifications of so huge a number of Boom babies who will be 65-plus and retired between the years 2010 and 2030—only 29 years from now in the first instance—is startling to contemplate. Given current assumptions of lengthening lifespans and current systems of support for the aged, it is difficult to see how this huge group can be supported by the proportionately smaller number of working taxpayers—those valiant few who managed to get born and grow up despite ZPG slogans and various methods of population control we practiced including pills and wars.

The nearer-term is fraught with sufficient and highly significant consequences for all, including those businesses created out of or built on the demands of the Baby Boom and its creators. America's great housing industry certainly fits that category. Until now the Boom has been housed in the world's best homes. Now they are beginning to create their own homes, despite high inflation and higher interest rates. The estimates of an extraordinary 20 million new homes being needed in the 1980s to house the families of Boom babies are today being referred to as "pent-up demand." It has the explosive quality of Mt. St. Helens just before the volcanic mountain redistributed itself worldwide. That annual average of two million new homes being needed each year in the '80s and early '90s today fuels investor enthusiasm for companies and industries with opportunity and position to help fill those needs.

But what happens when the Boom is housed. Will we have to say that while we weren't looking the market matured? There won't be much demand for new homes in the 1990s and the first decade of the 21st century; the death rate at the top of the age spectrum will more than take care of that need. The number of us who helped create the Boom outnumber the number who were born subsequent to it. And if a new boom began today it would be 2005 before it would require new family homes in numbers as great as housing starts were in the depressed times last year. In the interim, the now-emerging trend known as "do-it-yourself" will be in fullest flower, born of absolute necessity and demand, filled by those of the Boom who will be known as handymen and who will be blessed for their skills.

The chief hallmark of American business has been the willingness and ability to innovatively rise to challenge, especially when the economic motive was clearly visible and attainable. Business has modified itself in ways undreamed-of by economic and social planners because it works to meet needs and does not rely on the manufacturing of dogmas. Tomorrow's consumers will have what they need and demand because business will provide. Those Baby Boom consuming adults will, for some 20 to 40 years, be the most dominate force in American life, just as their parents are today.

Like nations and civilizations, businesses and industries have cycles. They begin, prosper, grow, mature, and—without renewal—they wither. Mr. Walter P. Chrysler's business may be near that cyclical end. Mr. Henry J. Kaiser's cars are now antiques, but importantly some of his other businesses are prospering.

With renewal comes hope. With modifications comes opportunity. With change comes the future. And from out of the past comes that marvelous gift of retrospect. With an awareness of where you've been, it is possible to mentally step out into the future and look back at where you are going to be going. That's what gives us that planning tool known as "20-20 hindsight for looking back into the future," to use Lowe's Chairman Bob Strickland's inventive image.

By early identification of the most dramatic demographic feature of our social and economic landscape, we may be able

'. . . and the world will beat a path . . .'

to position our support facilities to manage it for the benefit of everyone.

Lack of planning today shows its consequences when the auto industry attempts to deal with petroleum shortages and the erosion of control of its sources. If America's huge auto industry can stumble blindly, and perhaps fatally for some of its members, surely others can fall as easily. It may be symbolic and significant that oil companies no longer give away those guides to what lies ahead—the road map.

Business and industry already are changing, modifying. Giant oil companies today are renewing by acquisition and modification. Mobil bought Marcor; Sohio is buying Kennecott; Occidental tried to buy Mead; and Exxon is making intelligent office equipment. A high-fashion department store retailer enters discount marketing. A door-to-door cosmetics company now owns the greatest name in jewelry stores and a drug chain wants to buy the retailer of high-ticket home electronics. A glass jar maker now manufactures beer cans and space telescopes. German companies buy American grocers. Japanese cars are built in America and American-labeled cars are built in Japan. The Colonel may be dead but his fried chicken is sold in Paris, London and Toyko.

In the past 100 years, no company has maintained the same unchanged, pure product line it began with. Product lines do not remain static even over 20 years. Emphasis unchanged by the modifications of the marketplace is the surest way to Chapter 11. Only a century ago oil was mainly a nuisance bubbling from the ground in Pennsylvania and retailing was conducted in a single-store operations or out of the back of wagons by family entrepreneurs. Drug stores were apothecaries in the back room of the village doctor.

The knowledge that change is coming is a foundation on which to build. Knowing what those changes are likely to be is a vital part of determining the future by all who would be part of that future. It is the best way for society to function effectively, freely, without unnecessary and unwarranted state planners. With anticipation of the future, based on knowledge of the present, the next great flowering of America's business and industry is possible. As individuals no one of us is the same today as we were 10 years ago or will be 10 years from now. So, too, businesses are changed and changing. In modification is renewal. In change is opportunity. Only in recognizing today's challenge can there be a response for tomorrow.

Bill Brantley

A second trip, in September, to stores in Virginia and Maryland, proved even more popular in terms of numbers who attended it. At that time, Lowe's President Leonard Herring unveiled his plan to retrofit 100 stores in 1981-1982 and pledged to have 15 retrofitted by the end of Fiscal '80 along with RSVP floors installed in several new stores. His score at year-end was 17 retrofits and four new stores, and his leadership was hailed for its significance to Lowe's future.

Lowe's Vice President Mike Brown shows off the new RSVP store to analysts Farrokh Deboo of Citibank and Bob Simonson of Kidder Peabody.

Another trip, to Baker and Lafayette, Louisiana, will be conducted this spring and it gives indications of being the biggest Lowe's has even hosted.

As well as an opportunity to show off our major new physical asset, these trips offer the opportunity to show off our major off-balance sheet asset—Lowe's people. Between 25 and 40 senior Lowe's people are encouraged to talk openly and candidly in depth with analysts and portfolio managers about what they do and about the Company. And in turn the analysts learn that Lowe's employees are knowledgeable and dedicated individuals who are sincerely interested in making the analysts into prophets.

Outside of the formal tours, analysts know that Lowe's doors are always open and they individually visit at the General Office in large numbers throughout the year. They also know that the telephone is frequently an easy way for a quick or in-depth update.

The street runs the other way, to New York and other financial capitals of the United States and Europe. Last year dozens of trips were made to New York to talk with them singly and in small groups. Mr. Herring and Lowe's Chairman Robert Strickland made their first presentation to the New York Society of Security Analysts in October and followed it with a meeting before the retail analysts of Boston and the Financial Analyst Federation conference in Charlotte. The chairman made a large number of other appearances before other groups around the country.

The emergence of Europe as a major source of investment funds led to acceptance of an invitation for the chairman and his investor relations staff to appear before a major conference of institutional investors in London. Lowe's shares have been held by European investors for more than a decade and this opportunity was used to meet with some of them again. The time after the conference was used to speak to five large groups in five major financial capitals in five days—in London, Edinburgh, Paris, Frankfurt and Zurich. More than 300 representatives were addressed in those meetings, representing nearly that many institutions which manage billions of dollars worth of funds. While these meetings were occurring, interestingly and curiously, both Lowe's stock price and the U. S. prime lending rate were increasing about one point a day, a remarkable performance.

During a year in which home building was in sharp decline and earnings were depressed, it may be coincidental that the performance of Lowe's stock price not only surpassed all of its competitors, all the major indexes including the Dow-Jones 30, the Standard & Poor's 500 and the Wilshire 5000, and almost every major stock exchange index in the world. Measured from March 1980 to March 1981 the price nearly doubled. It may have been coincidental and it may not have been.

President Herring presents awards to Denny Langston, Lake Charles, La., Region 5, and Dennis Brannon, Spartanburg, S.C., Region 3.

President's manager of the year awards

Manager of the year awards are based on all phases of store management—sales, profits, market penetration, inventory control, receivables control, audit reports, and community participations. Of the various criteria, one—return on assets—was significant for each 1980 winner. A manager since 1978, Douglas Campbell's was 42%. Robert Tillman, a manager since 1974, had a 50% return. Dennis Brannon, a manager since 1979, had a 37% return on assets. Frank Bockway, a manager since 1978, had a 63% return. Denny Langston, a manager for one year, had a 39% return on assets.

Robert Tillman, Wilmington, N.C., Region 2, receives his award.

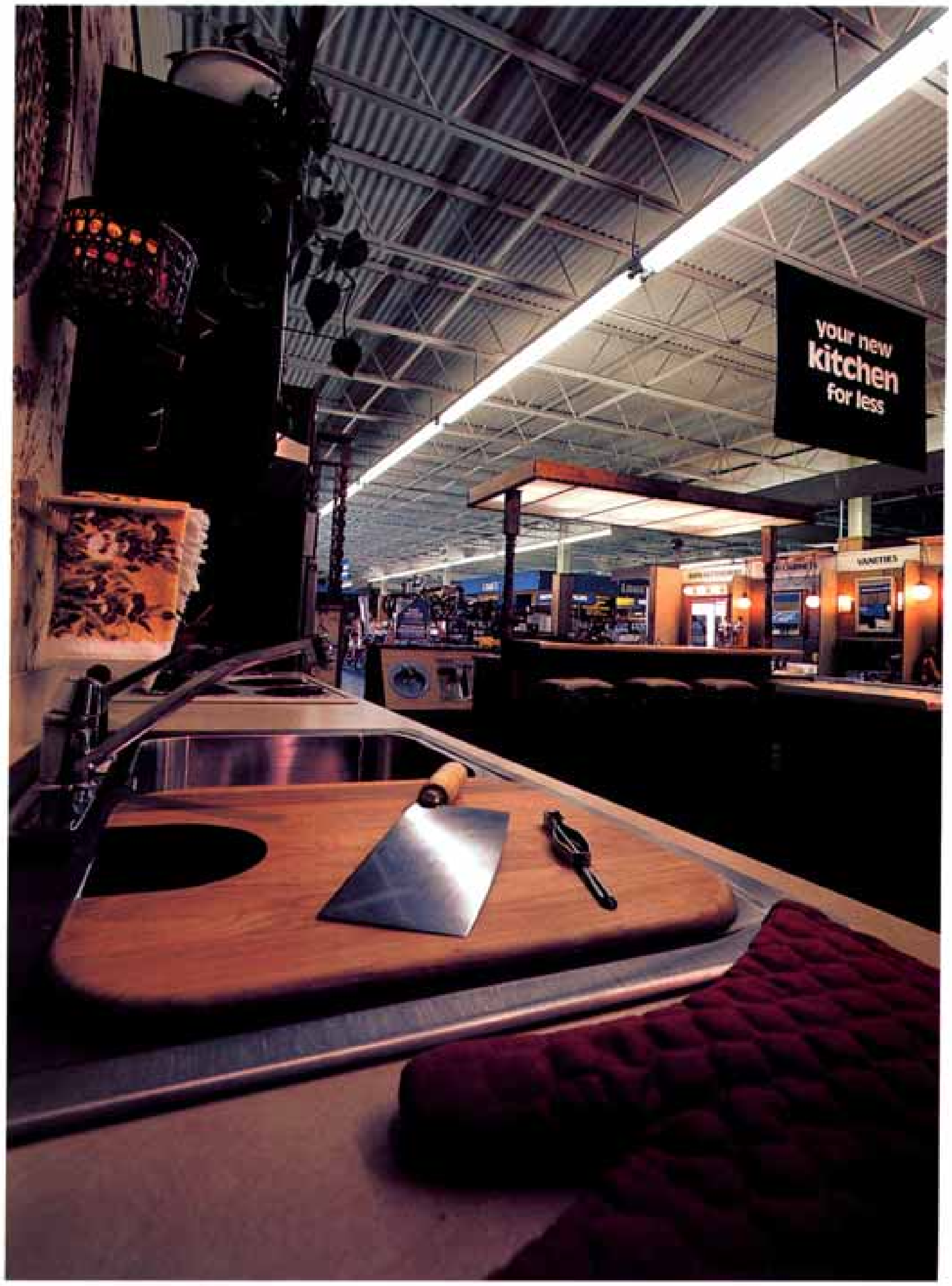
Douglas Campbell, Vienna, Va., Region 1, receives the award from Mr. Herring.

Frank Bockway, Pikeville, Ky., was the winner in Region 4.

Through a leaded, stained and bevelled glass door the Celebration begins.

RSVP *called Lowe's most significant achievement in a decade, was unveiled last year. These magnificent photographs by Bruce Davidson, one of the nation's best-known and most honored photographers, capture the visual delight of the new stores. Come, celebrate the new Lowe's.*

An impact area full of seasonal merchandise and wide traffic (drive) aisles greet the customer at the front door.



Integration of components into home-like
vignettes are a key presentation technique.

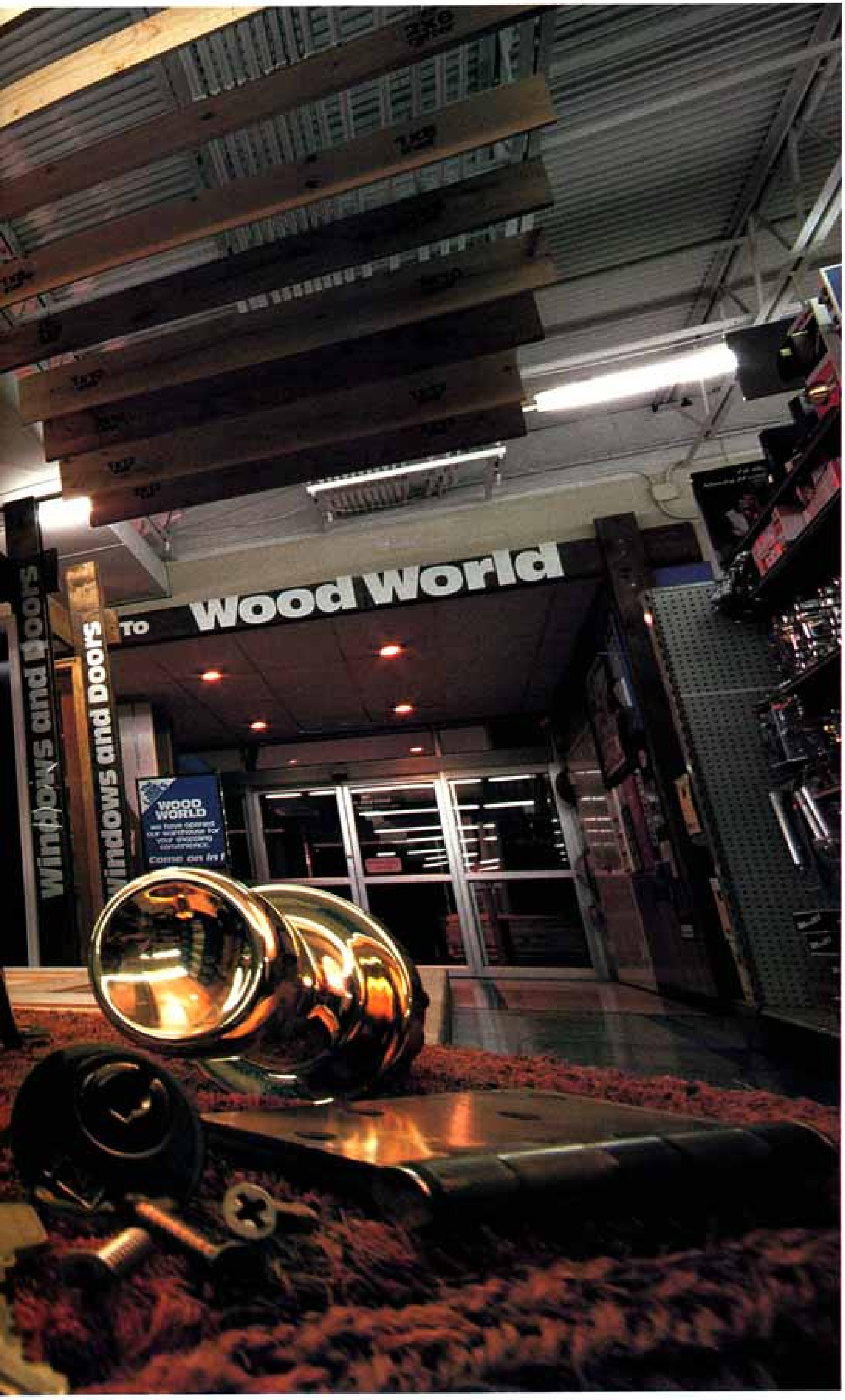
***A** retail selling area should fulfill the relationship between customers and what they want, need or discover. It should be a place of enjoyment and delight, and real satisfaction for the shopper.*

Heart of the store is the central sales and service area.

High-fashion merchandise is displayed with drama to aid the shopper and create profitable sales.

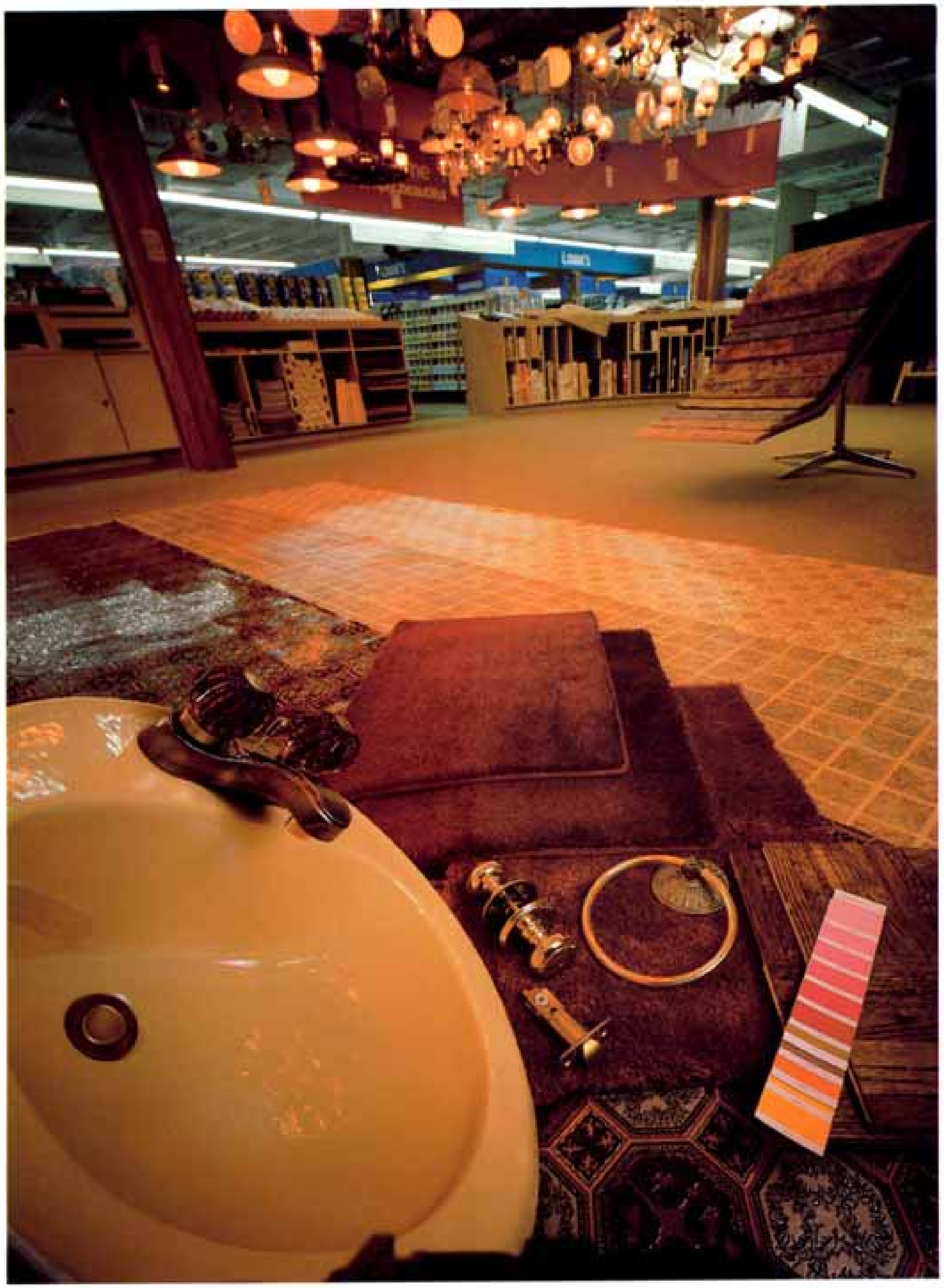
Satisfying products, in a skillful mix, result in a high degree of satisfied customers who leave the store feeling that shopping has been fun and profitable. They have become recipients of value for value delivered.


Windows and Doors
Windows and Doors
Prestige Collection
CAUTION



The beautiful and helpful display of doors and windows
in an arbor setting makes a strong statement and is a powerful selling tool.

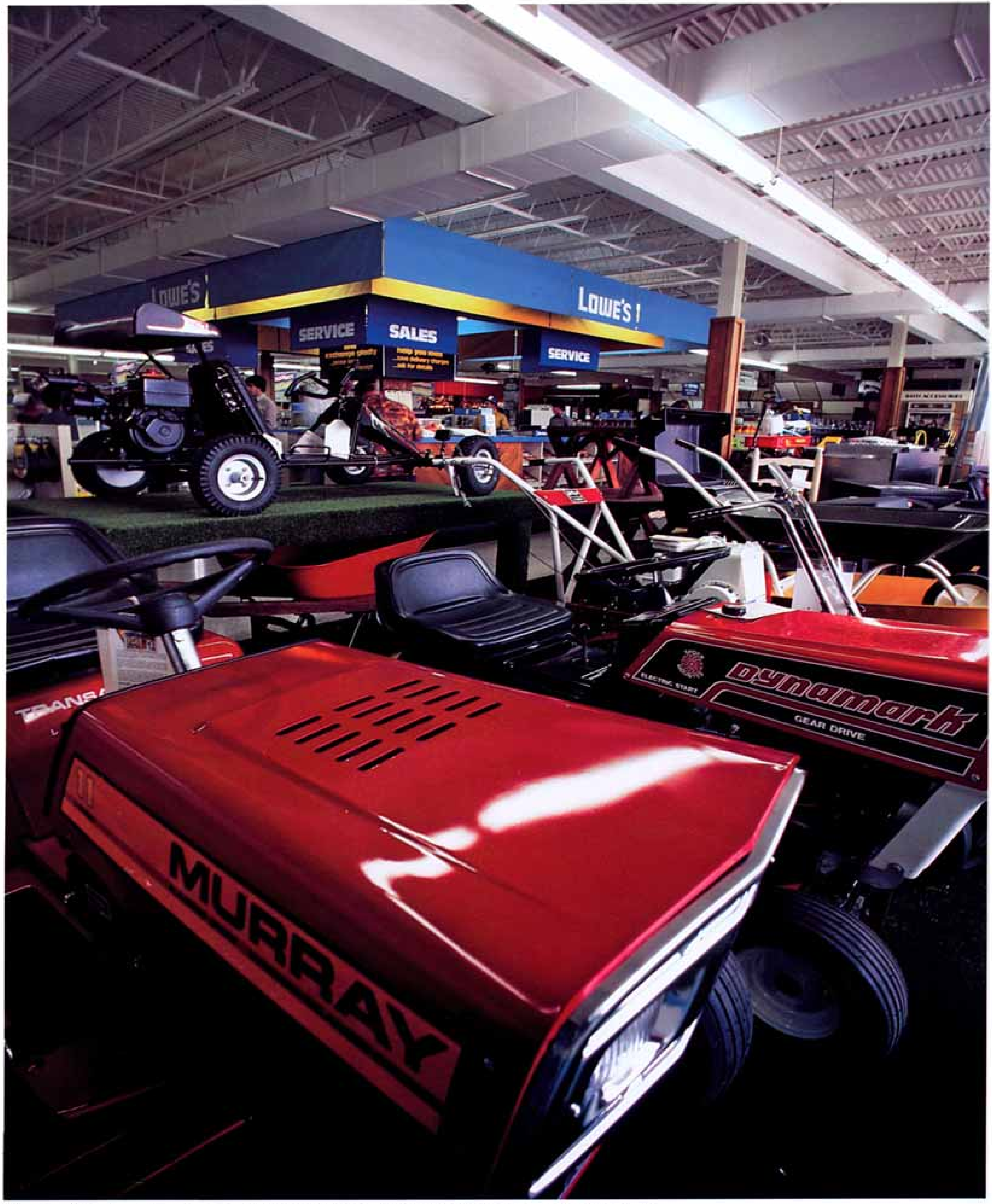
The celebration of form and function, light, color and graphics in a controlled environment designed to add knowledge and comfort to the shopping experience is achieved and promotes realization of significant value added.



Home fashion's components are drawn together in a warm and inviting setting conducive to proper decisions by the shopper.

Lowe's commitment to home electronics is reflected here. The image of new Secretary of the Treasury, Donald Regan, was captured here 21 times on screens and five times in stereo cover reflections.

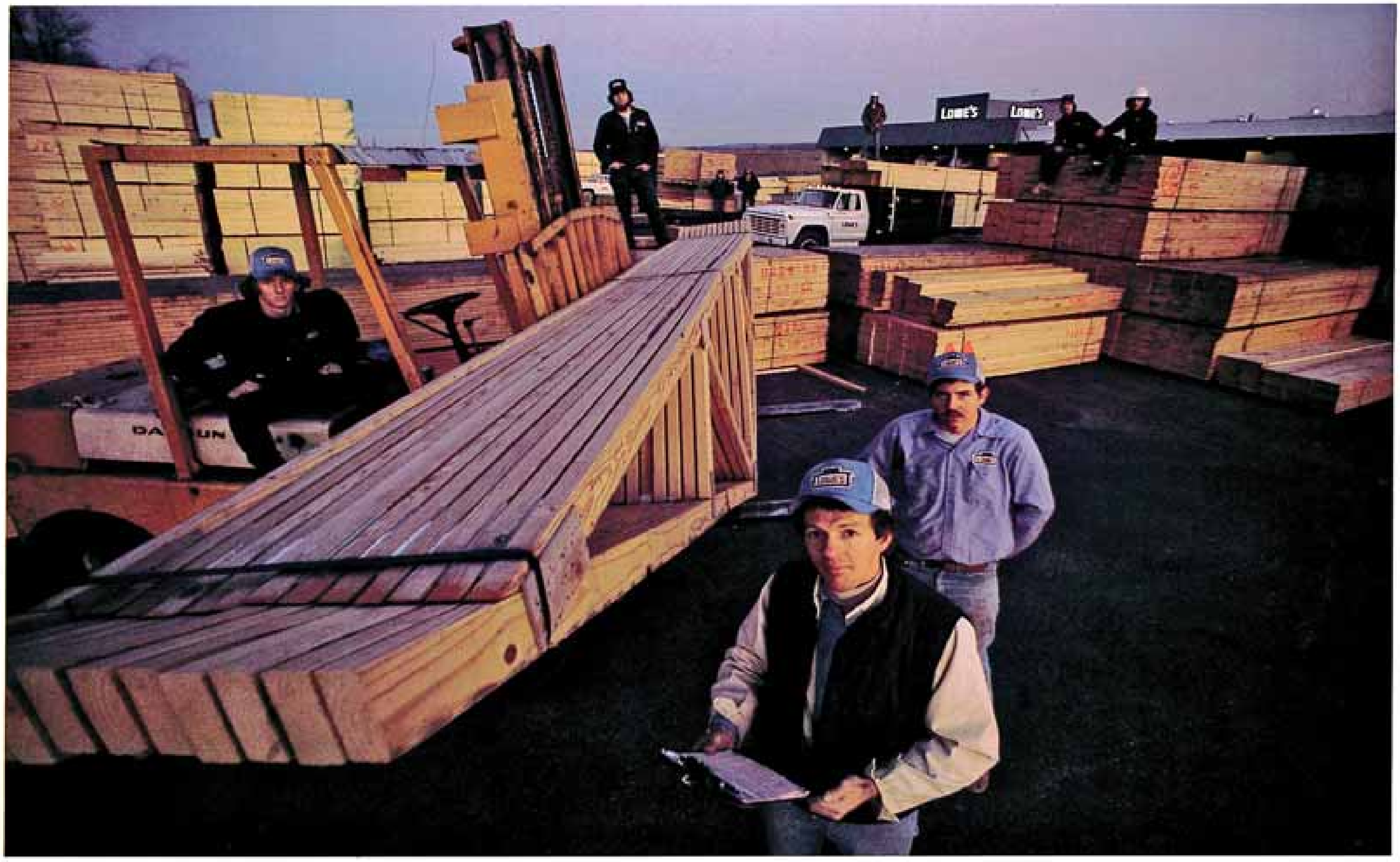
The arrangement of merchandise, the accessibility of service, the availability of conveniences are the culmination of careful and refined study and effort. At all times inviting, attractive and magnetic, the store is pleasing, not intimidating. Effective selling is best completed in an environment which allows customers the freedom to sell themselves.



Throughout the store color makes a powerful statement and a strong contribution to the pleasure of shopping.

The store's exterior is where the sale begins and where it ends, always selling, always serving.

An integral part of the marketplace of the community, the store contributes delight and spirit to its place with a special sense of purpose and becomes a strong influence, a greater force than its size alone would demand. A sense of need fulfillment comes from the experience there of satisfied customers.



At sundown, the work of another day has begun out where the dimension and framework of Lowe's begins.

For and by people, about products and services which meet people's needs, the store is caught up in the life of its community. Delight in routine form and experienced textures and colors can be transformed into ever greater good things and more cherished parts of an exciting, successful, vital America.

Lowe's Interviews the Analysts

The Who

Analysts participating in this Lowe's interview are:

Morris Mark, Goldman, Sachs & Co., Inc., New York.
Farrokh Deboo, Citibank, New York.
Leon Borchers, Robinson-Humphrey Co., Inc., Atlanta.
Barbara Alexander, Smith Barney, Harris Upham & Co., Inc., New York.
Robert P. Curran, Merrill Lynch, Pierce, Fenner & Smith, Inc., New York.
Bruce Missett, Oppenheimer & Co., New York.

Lowe's participants are:

Robert L. Strickland, chairman of the board.
William F. Brantley, vice president, investor relations.

The analysts were chosen at random as representative from the dozen or so who follow Lowe's closely throughout each year—a group with which we maintain at least monthly—and often more frequent—contact.

The Where, The When and The How

This is a verbatim transcript made in a New York studio of a conversation held among six analysts and two Lowe's executives on Wednesday, March 4, 1981. It has been edited ever so slightly to take out the eh . . . and ah . . . and um that we all tend to lace our speech with. We've also allowed each participant to correct minor grammar slips which look so obvious in print but which our ears almost never hear—fortunately.

It was unrehearsed and no effort was made to keep anyone to any pre-arranged topic—with the exception that we were all interested in Lowe's and the climate in which Lowe's does business.

The interview was recorded on Tuesday, February 24, 1981, with the same people in a New York hotel room. The quality of that recording, however, was so poor that it could not be transcribed. So, to that extent, there was a rehearsal, in fact.

The Why and The What

For a long time, the U. S. Securities and Exchange Commission and groups such as the National Association of Investment Clubs and others concerned with the flow of shareholder information from companies to their owners have urged inclusion of more forward-looking information in Annual Reports.

Many techniques have been tried. Fuqua Industries tried projections and dropped them. The Allen Group still uses projections in its financial information offerings, with success.

Other successful efforts have been those which include detailed and meaningful forward-looking market research information, such as Lowe's has included in its reports for more than a decade. From such an economic and demographic matrix it is possible to draw near and long-term implications.

This year Lowe's attempts to do more.

The accompanying interview of six knowledgeable security analysts by management is turning the tables, in effect, and taking the result into print—for the information, and hopefully, the benefit of all shareholders, most of whom never see the writings of a securities analyst.

The interview was conceived as one which would allow each participant maximum freedom with the questions structured as not to lead interviewees.

Mr. Strickland: Well, lady and gentlemen, I am sure all of you have heard President Reagan refer to President Roosevelt on many occasions. I am reminded that President Roosevelt had a brain trust, and so, therefore, I am delighted that Lowe's has a brain trust with us today, represented by you, lady and gentlemen. Thank you for your time. Mr. Brantley, we'll let you start the first round of questioning.

Mr. Brantley: We should begin a very general and broad question. Let me ask each of you to comment on it to the extent that you will. How do you see the building materials market and the related housing market, of course, in the coming year and maybe into the next year. Morris, would you like to start with that?

Mr. Mark: Well, I think today we start with an environment currently of stagflation, an economy that's stagnating, and interest rates that are high because inflationary expectations are high. And our financial system is undergoing significant structural change in probably not the best environment from the viewpoint of the current high cost of money in undergoing that change. All of those factors point to a continuation of last year's weak housing market. The specific housing start estimate that we're using for 1981 is 1,400,000.

'Our financial system is undergoing significant structural change. . . .'

Unfortunately, those negative factors are also reflected in the non-residential sector as well and, in addition, there are other things going on there in terms of pressure on insurance company cash flows, a very high cost of financing, and an aversion to making mortgage loans by the traditional lenders, all of which are going to constrain the non-residential sector in 1981 as well. We're looking for at least a 10% decline in the square footage started of non-residential space this year, which compares with a 10% decline in 1980.

Relating all this to the building materials market, I think its going to be another generally difficult year for most companies involved in the manufacture and distribution of building materials, particularly the manufacturers. I really cannot think of a commodity material whose shipments will be up in 1981, with the possible exception of textile fiber re-enforcements, and that's only because they were so depressed last year.

Any attempt to look at 1982 at this point is sort of conjectural. One obviously could have the tendency to extrapolate today's negatives into '82 and say that the economy is suffering endemic problems which are not likely to be cured all that easily, but I don't really feel quite that badly. I think it also pays not to be myopic, and to recognize the fact that there have been significant changes in the political direction of the country, which, I think, during the course of the year should result in significant legislative acts, and the continuation of certain recently implemented monetary and budget policies, which together will result in a much more favorable environment for residential construction at least in 1982, and should during 1982 set the stage eventually for a more favorable non-residential environment. I think that implies measurably higher housing starts at this point in 1982, probably in the range of 1,600,000 to 1,650,000, and it implies an improved tone to the building materials market at that time. In that sort of environment, we should see higher lumber shipments, higher plywood shipments, higher shipments of specialty wood products, a recovery in the insulation markets, and possibly some stability in the roofing market, although I think that's a particular segment that has secular problems. In general, as a result of the probable legislative enactment of most of the Reagan administration's tax and expenditure reduction proposals, 1981, at some point, ought to mark a reversal of most of the negative trends that I have discussed.

Alexander *Curran* *Missett*

'. . . enactment of most of the Reagan tax and expenditure reductions . . . ought to mark a reversal of . . . negative trends'

The key things to watch in 1981 will be whether the Reagan administration is able to get its tax cut, its spending cuts, and its regulatory changes through Congress. If it does, I'm going to feel very good about the direction of residential construction acitivity in '82. Just one other point which I think is worth mentioning is the fact that recently in some of the readings that I have been getting out of Washington, I see a lot of interest in the Congress in enacting tax changes designed to encourage consumer savings. I think there is a growing recognition among the politicians and people throughout the country that the housing financing system is having

Strickland *Brantley* *Mark* *Deboo* *Borchers*

significant problems, reflective of inflation and reflective of the pressures of deregulation. If we recognize these problems, and there are laws passed to encourage consumer savings, that could be a real plus for housing and the building materials market in 1982.

Mr. Deboo: I agree with most of what Morris has said. I would add two points. One, I think we are heading into an economic slowdown somewhere in the second or third quarters this year. We may already be in the beginning of one now. I think this has to be accompanied by declining short term interest rates, possibly some decline in long term interest rates as well. The second positive I would point to is the new kinds of home financing instruments that are being constantly experimented with and devised, for example, equity participation, the splitting of the lot from the home, etc. All of this makes the house less unaffordable. For those reasons, I would also have a range of housing starts for 1981 of a 1,400,000 to a 1,500,000, but would lean toward a 1.5 kind of number. I think then, with all the political developments that Morris alluded to, I am quite optimistic to 1982 being a decent housing year, not a great one, but a reasonably decent one.

Mr. Brantley: Leon, what's the view from the South? The Southern exposure, if you will.

Mr. Borchers: As far as the housing situation is concerned, I guess the number we have been working with is 1,450,000 starts which would be slightly higher than where Morris was and about where and maybe slightly below where Farrokh is. Of course, we think as you do, that things will get worse before they get better and that the seasonals are probably showing us higher numbers now than what is truly happening in the housing industry, and we think those numbers as we get into the spring are probably going to be a lot lower than where we now are. But, I guess basically we feel optimistic at this point that we do see grassroots support for the Reagan program and we think there is very much of a positive in this if it develops. We think there is grassroots support and, even though there is concern now about what's happening in the Congress, we are very optimistic that a reasonable share of this program will be enacted and that will help at least '82 and maybe the latter part of '81. As far as the housing industry is concerned we see 1,450,000 starts maybe this year, and a lot will depend on the second half of the year, and then maybe as high as 1,700,000 next year. We have the feeling that, although we have these problems to work out, that once we get the positives working and once we get a break in the psychology of inflation that things can turn faster, very often, than it seems like in the throes of these problems.

'we feel optimistic at this point . . . we see grassroots support for the Reagan program . . . there is . . . a positive in this . . .'

Mr. Brantley: Barbara, can we continue the upward estimates here with you.

Ms. Alexander: I'm afraid that the upward trend has just been brought to a screeching halt. I feel like the Cassandra of the industry, at least on the outlook for what I would classify as the intermediate term, even though my numbers for 1981 aren't radically dissimilar to Morris's. I begin by viewing the industry from a slightly different vantage point, looking at the Federal Reserve's monetary growth targets and the very vocal support that the Administration has given to the Fed's adherence to, or perhaps even lowering of, those targets. On that basis, we argue not only that the housing recovery may be restrained in 1981 but that it may recover slowly in 1982. If the Fed does adhere to these monetary growth targets, there simply will not be enough money around in 1981 to finance the federal deficit (which is, I think, a given), to allow for a real increase in capital spending, and to have housing starts substantially exceed 1,300,000 units. Coming at it from a slightly different perspective, if one expects short-term interest rates to average somewhere in the 14-15% range

Curious Reference No. 1

Cassandra, a name Ms. Alexander called herself and was called by others on the panel, was the daughter of Priam in Greek mythology who had the gift of prophecy but was fated never to be believed. In that meaning, Ms. Alexander probably shares the same feeling with dozens of other analysts. However, another definition of Cassandra, that of one who predicts misfortune or disaster is most operative in the manner in which she used the term.

during 1981, then mortgage rates are likely to average somewhere in that area. In that kind of environment, it's difficult to visualize a strong demand for housing (although those rates certainly will not price everyone out of the market by any stretch of the imagination). Since I suspect the Fed's monetary policies will not change in 1982, I think that we will have a recovery next year as the inflation component of interest rates deflates but that the recovery will be somewhat slower than my more optimistic friends are anticipating. In some ways, I hope that they are right, since it's a lot more fun to be a housing analyst when the market is going great guns than when it's restrained. But, I'm afraid that over the next year or so we are facing a period of fairly slow growth. Thereafter, however, as Morris pointed out, given that the political winds appear to be blowing in a direction quite favorable for housing, we should see a decline in interest rates (because of a reduction in the inflation component of these rates), a very strong period for housing, and perhaps, mortgage rates in the 10% area.

'I think we will have a recovery next year as inflation . . . deflates but recovery will be somewhat slower . . .'

Mr. Brantley: How much of a demand do you see out there in the mid-'80s or in the whole decade of the '80s? What kind of figure are you looking at?

Ms. Alexander: Well, there have been a number of studies done on this topic. Most of which conclude that underlying demand for conventional housing would be about 2,000,000 units a year in the 1980s. And, certainly, if one goes through the numbers from a demographic point of view (assuming that the trends established in the 1970s toward undoubling continue), the 2,000,000 number would appear to be a very valid one. Right now, however, *effective* demand is trending towards a lower level of housing because of the affordability issue. It is this affordability (or the lack of affordability engendered as much by high interest rates as by anything else) which has hampered home building and home buying recently. As I indicated just a moment ago, we believe that the Reagan Administration's programs have a good chance of succeeding in bringing down inflation and making housing much more affordable. But unfortunately, these programs will not provide overnight remedies. So, although I tend to lean towards a continuation of the kind of numbers that have been generated on undoubling, I would point out that at the current time the U.S. populace is better-housed than any other industrialized country (whether you look at the number of people per dwelling or the number of people per room, per dwelling). Therefore, it's difficult to argue that theoretical underlying demand will necessarily be met unless the economic tenor of the times improves sufficiently to produce the requisite *effective* demand.

Mr. Strickland: I think Dr. Sumichrast of NAHB as you all know has a number of 18,000,000 for the decade of the '80s, which would be an average rate of 1,800,000 and he forecasts the slack in demand or rather the gap in demand between the 1.8 to the 2.0 underlying rate to be picked up as an increase in sales of mobile homes, interestingly.

Mr. Mark: I think that the key point to really focus on is Barbara's point, that in the final analysis the amount of shelter that is going to be built is going to be a function of the ability of our society to generate wealth. I would like to paraphrase the chairman of Pulte Homes who was asked this question at a recent analyst meeting that we attended. People asked him about underlying demand and he said, "I don't run my business on underlying demand." He said, "I think that the potential demand for Sevilles and mansions is enormous." I think that's the thing to remember. If Americans are prosperous, and if they are making more money, there is every reason to believe that they are going to try and upgrade their life style, which means obviously living in a better and more desirable place for a great many of them. So that's a key thing I think to focus on. The future of this business is essentially probably going to be determined by how well, or how poorly, the American economy does.

Mr. Strickland: I think I read in a Jim Walter annual report years ago that said any analysis of housing demand must take these two basics in account:

Not-So-Curious Reference No. 1

Dr. Michael Sumichrast is the chief economist for the National Association of Home Builders and the most widely regarded housing economist in America although his estimates are frequently considered conservative by others who follow housing.

A—Everybody is already living somewhere. B—Many people would prefer to be living someplace better, which is your point.

Mr. Brantley: Bob Curran, how bullish are you on building?

Mr. Curran: Well, we've had something of a spectrum presented here so far in terms of forecasts for the housing environment this year. I agree that it doesn't look like the prospects are especially bright. It does look like there will be improvement in housing starts. The number that was mentioned of 1,400,000 this year seems pretty reasonable. At this point, we feel that the environment next year will be considerably better. I think the highest number that has been mentioned for next year has been 1,700,000. I think we might lean as high as 1,800,000. We feel that the kind of product that will be produced, a smaller unit in terms of square footage, more likely to be attached, than detached, certainly an improvement in terms of the kind of interest rates that apply and possibly greater acceptance on the part of the public of some sort of a variable rate mortgage mechanism will lead to the realization of some of this pent-up demand.

'. . . there's the great dynamics for home improvement; people do tend to upgrade. . .'

I think it is important in centering on 1981 for building materials retailers to consider the implications of the depressed housing market for new and existing homes during the last couple of years. The implications are that some of the people, who would have typically looked towards not only the repair but the modernization of their units, are absent. In particular, owners of existing units because the numbers of such units sold has declined rather markedly. In addition, softer demand from this sector may show up for an additional year or so. Now having said that, there's obviously still the great inherent dynamics for the home improvement area, alluding to what Morris and the other people here have said. People, when they have the financial wealth and the opportunity, do tend to upgrade their living standard and I think that will continue to work to the advantage of the industry. But, near-term, as has been pointed out in terms of the contractor market and in terms of the retail customer/home improvement market, there may continue to be some pressures that haven't been worked out during this past year.

Mr. Brantley: Bruce, you're the only retail trade analyst here. Well, you're the only one from New York here.

Mr. Missett: That's not quite right. I'm the only one still following department stores and chain stores.

Mr. Brantley: Why don't you share with us your thoughts?

Mr. Missett: Obviously, I am going to have a different perspective on this. The outlook as outlined here calls for housing starts in 1981 at, I think, a low of something like 1,350,000 starts and about 1,450,000 for the high end, which is about a 10% spread or a gain of 10% over a depressed 1980. This is a major component of demand but not the only component. When I look at difficulties of a more permanent nature that face many traditional retailers, the environment and that spread of 1981 starts does not seem as difficult to operate in for the end distributors of building materials and do-it-yourself products. I think that cyclicality is most affecting the building materials manufacturing segment of this industry as opposed to the end distributors. Looking out to 1982 where the spread of estimates is between, I think, 1.6 and 1.8 on the high side, you're talking about a 12 to 13% spread and if you hit that in the middle you're talking about a 6% either side of that number for about a 20% increase over 1981. Again, that does not seem to be too terribly difficult an environment for the end distributor to operate in—particularly if that distributor is one who is looking at other critical elements, elements that will have more to do with market share gains, than they do with the absolute environment for housing starts. So, from that perspective, and looking at Lowe's or looking at Do-It-Yourself industry for the retail side, I think that 1982 looks like a very promising year. Again, for the end distributor, one of the other changes that is occurring is not dissimilar to what occurred in general merchandise retailing in the late '60s and early '70s. It is that merchandising is becoming a tool that will improve the position of these com-

'. . . merchandising is becoming a tool that will improve the position of these companies (like Lowe's), over the next few years. . .'

panies over the next few years and over the near term. I think Lowe's is an example of that in terms of the retrofitting of their stores. So it is a different perspective and I look at 1982 with modest optimism.

Mr. Brantley: Morris, since he has mentioned us specifically and the retrofit in particular, why don't we start around and get your comments and observations and thoughts about how Lowe's fits in and what Lowe's should be expected to do in 1981 and 1982, and any comments you might have on what we have been doing in the past year.

Mr. Mark: I think that three things that the company has initiated in the past year, primarily in the past year, should be increasingly important in distinguishing Lowe's performance from that of the general building materials distribution business. Number one, the decision to develop a program designed to gain share of market with professional builders. Number two, the decision to aggressively implement a store retrofit program built around the RSVP program, and Number three, the decision to once again use the strength of your financial position to maintain a fairly healthy rate of unit expansion, currently, I think, budgeted at the rate of 10% per annum in terms of new units. As we get into the '80s, these factors, assuming they are properly implemented, and I'm very encouraged by some of the signs I see in the second half of '81 with regard to the pace of the retrofit program and the current plans for opening new units, these programs should result in a return to rates of return on investment at Lowe's more comparable to what you acheived in the late '60s and early '70s than what the company was able to achieve in the late '70s. So in that sense I'm heartened. Unfortunately, when I look at the particulars of 1981, I think it is important that people realize that the effective implementation of these programs, Number one, will take time, and Number two, don't completely offset what is still likely to be a very difficult and competitive environment. One of the things I noted from the Fourth Quarter Report was that, despite the fact that the company was able to achieve a modest sales gain in the fourth quarter, your margins continued under pressure because you had to be competitive to sell goods. And I certainly think that we're likely to see the continuation of that sort of environment in 1981. I am assuming, however, that, along with Farrokh, as we get into the year you will be benefitting from an environment of lower interest rates and lower taxes. As we get into the year, the residential construction environment should improve, and assuming there is a tax cut, it ought to have some impact on the consumer sales environment in the second half of the year. Also, I would think by the second half of the year you should be generating some productivity gains from the retrofitted units. So taking all these factors into account, I think that 1981 will be a better year for Lowe's than 1980. Saleswise I think it will be a year that Lowe's finally reaches the billion dollar sales category, something we've all been looking forward to, and your profit margins should widen. I don't know whether you want a specific earnings estimate or not.

Mr. Brantley: That'll be fine if you want to make it.

Mr. Mark: Well, at this point we're estimating earnings in the range of about $2.05 to $2.10 for 1981.

Mr. Brantley: I love it.

Mr. Mark: I hope, since this is going on record in your annual report that you're at least able to achieve it.

Mr. Brantley: Let the record show I laughed.

Mr. Mark: Ok, let the record show I was smiling.

Mr. Mark: In terms of '82, I think in '82 you should really start to hit your stride. Now once again I don't think its reasonable to assume that the company can perform well if the operating en-

vironment is not reasonably good. Within the context of the general operating environment that we talked about earlier, 1.6 or 1.65 million housing starts, and an economy that finally is generating some meaningful positive real growth, I think Lowe's earnings in that sort of year should be close to $3.00 a share. We currently have a tentative estimate of $2.90, based on an expectation of sales of about $1.2 billion or $1.25 billion and that is definitely not the best of all possible worlds or definitely not as well as the company I think will or should do, as we get into the '80s, but I think it's, at this point, my best guess as to probable direction.

Mr. Brantley: Farrokh, you have a significant interest in Lowe's. Let's hear what you think about what we are doing.

Mr. Deboo: Well, Lowe's has always been a low-cost and most proficient seller of building materials to the professional builder. It has not been nearly as good in the field of selling to the do-it-yourselfer or the general retail customer. I am, therefore, encouraged to see them making serious attempts at catering to that customer. I'm very encouraged by the new store format. Those of us who have been to these stores are quite impressed, by the distinction, by the difference between this new store and the old stores which, to put it frankly, were quite unappealing. I think these efforts are worthy. I think they have a high probability of being successful. As to the prospects for

'I am encouraged to see (Lowe's) making serious attempts at catering to retail customers . . . I am very encouraged by the new store format.'

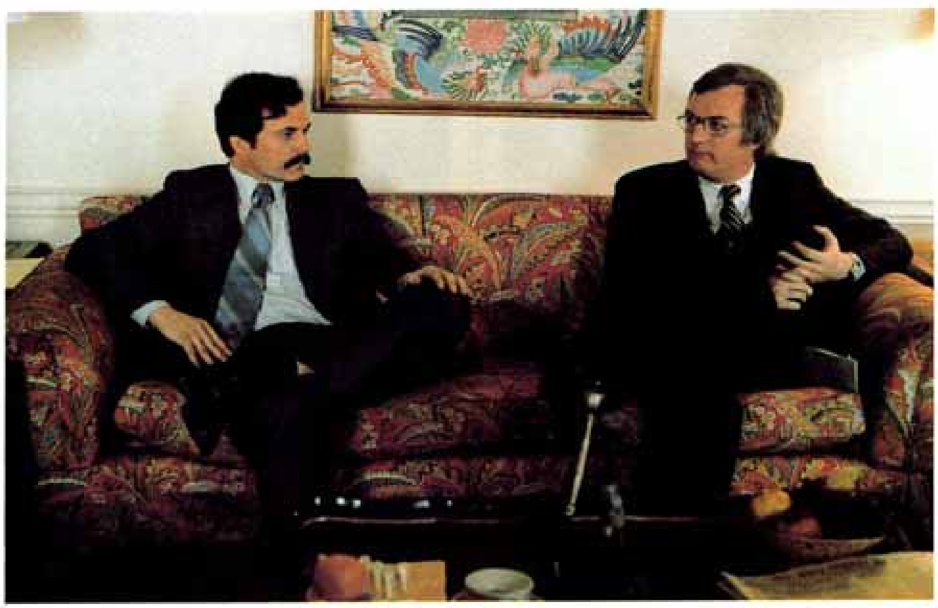
1981, I have no quarrel with Morris's $2.10 - $2.05 - $2.10 number. I might even go with a slightly higher number, since I have a higher housing starts estimate than Morris has. As the environment improves in 1982 and as Lowe's efforts in retrofitting the old stores and in adding new stores bears fruit, again, I have no quarrel with Morris's number although I would, myself, use a higher number, for the reason that you would have housing starts up perhaps from 1,450,000 or 1,500,000 to 1,700,000. You would have 10% more stores. You would have prices and you would have some productivity. So I'm optimistic about 1982 earnings.

Mr. Brantley: Leon, where are you?

Mr. Borchers: Well, I guess I would also have a scenario of building optimism for the company as the cyclical upturn in housing develops and also as the program on the retail side of your business develops, i.e., as the rehabs are completed and the effect materializes that those ought to have on your sales and earnings picture. We feel that it is a major step forward — the retrofit program. It was a major step that the company made in terms of the upgrading of those stores to the new format. We feel now that when a customer comes into the store that he is invited to come in and participate in this do-it-yourself business which really wasn't the case for the company before. So, we're optimistic from that standpoint. As far as this year is concerned, I guess we've backpeddled just a little bit as we've had a chance now to look at the 1980 results and we've seen expense numbers that impacted both the cost of goods sold and the SG&A (selling, general, and administrative expenses) numbers more heavily last year than we thought. And, thus we've narrowed our number down a little bit for 1981 looking probably in the range of, and I'll just talk in terms of a rough range, of $1.80 to $2.00 for this year, depending upon how this scenario works out. Then, we look to 1982 probably for a $2.50 to $3.00 range as the expected significant upturn in that period and the economic situation unfolds.

Mr. Brantley: Barbara, that gets the numbers down more to where you probably like them so you don't sound as Cassandraish as you might otherwise. Where are you really, and what are you thinking these days about us?

Ms. Alexander: Well, I'm more of a Cassandra on the building materials manufacturers that I am on companies such as Lowe's that are not in the business of producing commodities and, therefore, have more control of their own destiny. I would briefly reiterate a couple of points which were



made by my colleagues. First of all, I am very enthusiastic about the RSVP program initiated by Lowe's. If I have any problems with it at all, it's only that its implementation is not proceeding as I would like, with a significant number of stores still to be retrofitted at the end of the current fiscal year. I would also underline my enthusiasm for what's happening on the professional side of Lowe's business. While in troubled times such as these, when home building activity is weak, one tends to focus on the retail side of Lowe's business. I believe that it's more important to center attention on prospects for a "normal" year, when its professional business should once again account for about 60% of total sales. So, it's not an unimportant consideration that you have an incremental sales and traffic builder in the pro area. My earnings estimates for Lowe's are actually very close to Leon's, and I would feel very comfortable with forecasting a range of $1.80-$2.00 per share for 1981, and about $2.50 per share for 1982. It is important to keep in mind that if history repeats itself, there will be a point where earnings will move up dramatically. It's pretty difficult for analysts to pick the exact quarter in which that will happen or to forecast the magnitude of the increase because, while operating leverage isn't as much of a factor for retailers as for manufacturers when sales begin to increase rapidly, it can make a big difference to a retailer's bottom line. I would assume that by sometime in late 1982 we'll be seeing this effect on quarterly year-to-year comparisons.

Mr. Brantley: Bob Curran?

Mr. Curran: Ok, well, in terms of 1981, it seems to me that there is a general agreement that a recovery in housing is probably going to be delayed this year or at least be weaker than what a lot of people earlier thought. In that regard I think it's worth pointing out that, as Barbara had mentioned, the contractor business is so very important to Lowe's and that the recovery probably occurring in the second half of the year won't have so much impact this year. Also, I think its worth noting that in terms of the store retrofit program only a handful of units, of course, are in place at this point in time. The program by year-end will certainly be well along. However, I think that its impact will not be substantial this year. In addition, I think that the competitive environment for the retailers will continue to be rather severe. I do expect that earnings will be higher this year. Something like $1.70 to $1.80 are the numbers I'm working with at this point in time.

I think that 1982, however, promises to be a very good year with a fuller impact from the store retrofit program and, reflecting our housing start estimate for '82, implications of a significant rebound in residential construction. Probably the rebound in construction will be more important. So something close to $3.00 per share is quite possible for the company.

I might add that, as people earlier alluded to, the retrofit program promises a great opportunity for market share penetration, above and beyond the basic fundamental growth, in the alteration repair/home improvement market. Other concerns such as Payless Cashways have for other strategic reasons in the past done such a program or something similar. The payback tends to be relatively quick compared to that of building a new store and it tends to be a very high return on the relatively modest investment, but it does tend to mature sooner than does a new store. The opportunity for Lowe's of course is that once they've gotten that fairly quick rush from the retrofit program they will continue to build on this franchise in the home improvement area.

'. . . the retrofit program (RSVP) promises a great opportunity for market share penetration . . .'

Mr. Brantley: Bruce, before we go on to you, let me drop back and ask Barbara a little follow-on. Barbara, you're the only person in this group other than Leon who has lived awhile in the South plus you're the only one of us who is a woman. You've shopped Lowe's stores, and you've seen some of the new stores. What do you think of them as a former Lowe's shopper and as a woman, in as much as we are targeting them very much to the woman shopper.

Ms. Alexander: Well, it's difficult for me to distinguish the manner in which a male shopper and a female shopper approach a store. I approach it in one way—and that's the Barbara Alexander way—but I'm not sure whether that is "typically female" or not. But to answer the questions more appropriately, I used to find that going to Lowe's stores, at least stores around the Winston-Salem, North Carolina area, was a little bit like going on a treasure hunt. You knew that the product was probably there because the stock was quite extensive, but it was a real challenge to try to figure out just where it might be located. Sometimes someone was there who might help you, and sometimes not. In my opinion, this was true because if there was a professional builder on the premises, he was the one who was receiving the salesmen's attention—not the retail customer. And, since the sales force was selling to professional customers who knew how to use the products, the typical reaction to questions like, "How do I use/install the product?" was to refer you to the instructions. The new stores have a substantially different approach to

merchandising and selling. First of all, they are very eye-appealing, as the company's photographs demonstrate, and are designed to direct customers to the highest gross margin products first, which I greatly respect as an analyst (and a female). Second, there now are areas which are clearly high fashion, such as the home decorating center, that were not present before. But, what I find most desirable about the new store format is that it's now very easy to find products, and there are people in each section of the store who are capable of answering questions and of helping consumers to select the right item(s).

'The new stores have a substantially different approach . . . are very eye-appealing . . . direct customers to highest margin products first . . .'

As a number of consultants to the Do-It-Yourself industry have pointed out in the past, at least 75% of the game in inspiring individuals to become more active do-it-yourselfers is to encourage them and increase their confidence about what they plan to do. Then, they're more willing to put their dollars on the line, buy products, and do the work. Since you now have the people on stream who are able to do that, I think it's a major plus.

Mr. Brantley: Good, thank you. Bruce?

Mr. Missett: Going back to the expectations for Lowe's, near-term and 1982, it's interesting, too, that the spread in expectations for Lowe's is greater than the spread in expectations for housing starts. It was my impression that as the end distributor this should be a less cyclical business. I'm surprised that the spread is as great as it is. I think in looking at Lowe's historically. . . .

Mr. Brantley: That doesn't necessarily imply that we're cyclical. It's just that these people have their different views.

Mr. Missett: No, that's why I tried to clarify it. Looking back before the RSVP program was implemented, it's surprising how well you did in the retail side of the business. I would think that a lot of your retail sales occurred as a result of just being in the way of a consumer trying to find a specific product and yours was the first store that he came to. Or he was aware that Lowe's had everything in supply but that he just had to go find it as Barbara has said. I think the new program clarifies your offering

'. . . RSVP stores (have) an integrity and clarity to merchandise presentation.'

and having spent a lot of time working on specialty retailing. One of the first things to understand about a specialty retailer is its focus, how clear the offering of that good or the offering to a specific life-style customer or a specific customer area is. I think you've handled that very well and I think it's very obvious today going into your new RSVP stores that there is an integrity and clarity to the merchandise presentation in the store. Having seen changes of that type in other merchandising segments, the impact has been considerable. It helped rebuild the department store industry that to a large extent had stayed a commodity retailer of general merchandise in the '60s. Through changes in merchandising, the industry became a more important force in the '70s. I think that the impact of RSVP, realizing the rollout time is going to be first visible in the latter half of

this year, should have some significant effects in terms of improved productivity and certainly will be important by the fourth quarter of 1982. I would like to have a better perspective on what impact it has on your pro side of the business in the sense that it makes it a more appealing store for everyone.

Mr. Brantley: Good point. And maybe one of these days we'll be able to quantify some of those numbers as to what those effects are on the pro side and the retail side, and without meaning to open it up for general conversation, I think there is a possibility of something sort of like a Laffer Curve, that there might be more impact for the pro side in some of the areas than there is for the retail side.

Curious Reference No. 2

Laffer Curve, once called the "Ha-Ha Index" by Congressman Pickle of Texas. Dr. Arthur Laffer, economist at the University of Southern California, allowed as how Congressman Pickle didn't have a name which gave him much room to make fun of others. Dr. Laffer, a principal advisor to President Reagan on tax policy, uses his Curve to describe the relationship between tax rates and revenues which those rates raise for the government. His thesis is that a given level of revenue from taxes can be maintained by increased levels of employment, achieved by lowering taxes from prohibitively high rates. It has also been explained that you get more revenue from charging each car on a toll bridge a dollar than you would if you tried to charge each car $1000. At a dollar a car, $1000 might be quickly raised. At $1000 a car, probably not one dollar would be raised.

Mr. Mark: You'll have to watch it. Now we know Lowe's believes in The Laffer Curve.

Mr. Brantley: I've been a believer in The Laffer Curve since Laffer was a child.

Mr. Strickland: The early indications are good and we will be speaking to that later. Let me offer equal time now to some of Lowe's competitors and indeed some people who may not be our competitors but who are favorite companies of our panel. Any stocks that are favorable to you panelists as of early March 1981?

Mr. Mark: I think that we highlighted two things in describing the current operating environment — sluggish and undergoing structural change. At the same time, I think most of us have a subdued sense of optimism about the long-term future. So, I think when you view things in that context, the farther out you look the more optimistic you can be about the earning prospects of a wider range of companies. At this point, in terms of specific recommendations, what we are concentrating on those companies that we think have the greatest opportunities to do well in today's environment, on the theory that the long-term outlook should be equally, if not more favorable, to them than that of some of the other building firms, and that they could provide some pleasant surprises in environment where unfortunately some of the commodity companies may provide some unpleasant surprises. So, in addition to Lowe's, the areas that we are stressing are some of the publicly-held home builders that we think are structuring their business to gain significant share of market in this environment and, also where we think there will be higher earnings in 1981. In particular, Pulte, U. S. Homes, Lennar. We're also intrigued by some of the trends that we've seen going in the area of land development and the difficulty involved in getting approval to build in growth areas such as California and, even increasingly, in Florida. So we're looking favorably at companies like Standard Pacific, Shapell, and I would hope to look for some other ideas along these lines.

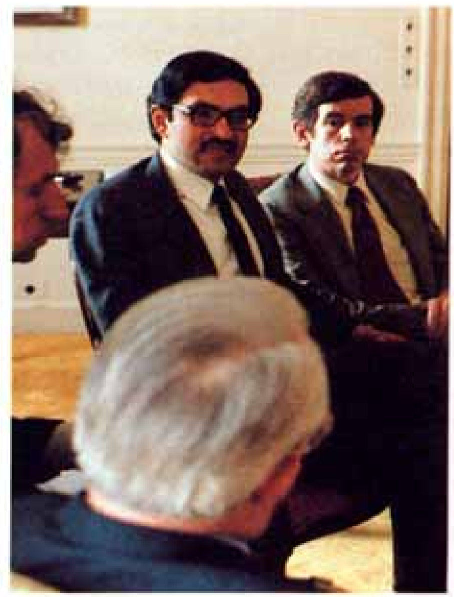
In another vein, with the financial markets undergoing structural changes, one thing that seems fairly clear to me is that, over time, it's not reasonable to expect a role of federal mortgage insurance to expand. I think it's more likely that it will be limited as part of the effort to control the size of government.

'It's not reasonable to expect the role of mortgage insurance to expand.'

At the same time, I think it also reasonable to expect a greater proportion of the mortgage funds which are raised to be raised through the capital markets, and in order for a mortgage to be marketable in the capital markets, it more likely than not (if it's a high-ratio loan) will have to be privately insured. That makes Magic — MGIC — Investment Corporation, I think, a particularly attractive investment at current levels because, one, the company should show higher earnings in 1981 and, two, it should have a very, very favorable secular long-term growth outlook. As I said earlier I don't want to seem too negative on the commodity building material manufacturers because, if the environment evolves as we anticipate, there is tremendous leverage for sharp earnings gains. But at this point we are particularly price sensitive, we'd rather buy what we think are the good, well-managed companies with favorable outlooks, such as Owens-Corning, Masonite, U.S. Gypsum. We'd rather buy them on weakness on days when the market's off than being quite as aggressive as we are when we look at some of the other securities that we favor.

Not-So-Curious Reference No. 2

George Allen, the legendary coach of the Washington Redskins, is more quoted by football fans than by football professionals. His sometimes-pithy comments have established him as a noted after-dinner speaker. It is an act of gracious charity to hope that his success as an investor is greater than his team's record in the Super Bowl.



Mr. Strickland: You know, George Allen of the Washington Redskins always used to say that the future is now and it sounds as if he is having some input into the portfolio strategy of Goldman Sachs at this time.

Mr. Mark: Well, in terms of my specific recommendations.

Mr. Brantley: Farrokh, do you want to comment generally on areas that you like?

Mr. Deboo: Generally speaking I agree with some of the industries Morris mentioned, i.e., home builders, some of the land developers, mortgage financing companies, and some specific sectors of commodities.

Mr. Brantley: Thank you. Leon?

Mr. Borchers: My comment is in general areas. I would say that we are optimistic over the next few years about the Do-It-Yourself area, generally speaking, with the demographics and some of the fundamental factors that we think are working OK for this group, there are other companies in this group that we would favorably view, as well as Lowe's. Another group that I would single out would be the catalog showroom group which has come through a couple of difficult years. We see a building economic environment that should work well for this group which has an inherent cyclicality. Additionally, our expectation is that we are going to be looking at an environment where

'The consumer isn't going to have quite the same role in the upturn, although he still is going to be part of it if there is going to be an upturn.'

the consumer isn't going to have quite the priority that he has had over the last 15 or 20 years. Because of the shift from the consumption-oriented viewpoint to one more investment-oriented, the consumer isn't going to have quite the same role maybe in the upturn, although he still is going to have to be a part of it if there is going to be an upturn. I basically, of course, have always followed the specialty area of retailing and we think that this adds credence to that approach, but also, we'll be looking for those kinds of retailers that we think have a specific niche — special situations within the specialty retailing area, in other words.

Mr. Brantley: Barbara?

Ms. Alexander: I think I should start out by building on Bob's George Allen quote, which is to say that I now seldom talk with money managers interested in more than the next two-to-six months— or at least in the period between now and the release of the next Becker Survey. So, I think that, unfortunately, we are all very much aware of the focus on the short term. Therefore, in the context of investments which will yield attractive returns during the current year, I would tend to focus on one group Morris mentioned—the home builders. I have emphasized this group since last September when I lowered

my housing starts estimate to the 1.3-1.4 million unit range. I still believe that the well-managed, well-capitalized, well-positioned home builders can continue to gain market share and to produce very attractive results this year

'well-managed, well-capitalized, well-positioned home builders can continue to gain market share . . .'

and that they will be able to record extraordinary numbers as the housing environment improves. The two names that I like in this area are U.S. Homes and Pulte Home Corporation. Both have southern, western and southwestern exposures which have been important to them in maintaining the kind of growth I think investors want to see. Another company I would mention, although in a different area, is The Stanley Works. Stanley is smack-dab in the middle of the Do-It-Yourself sector. It is a classic power-marketing company in the sense that it uses television and print advertising probably as well as any consumer marketing company around. The company has been able to establish the Stanley name to the point where it can quickly push a new product through the same distribution channels that sell other Stanley products and build significant market share in a very short period of time. Weatherstripping is a good example of this process. The product captured 10% of the market by the end of the first year it was introduced and about a 15% annual compounded rate over both the last five and the last ten years—an attractive growth record. Over the next five years, I expect growth will equal or exceed this historical level.

Finally, there is one more area that I find intriguing—the home furnishing industry. The group has experienced a rather attractive performance over the last year or so and is beginning to receive increasing attention from the securities industry. Interesting names there include Henredon Furniture Industries (although the stock has enjoyed enormous price appreciation over the last year) and the Lane Company. In the case of Henredon, I think the stock is likely to appreciate in line with the company's expected earnings growth rate of 15-20%. Lane, meanwhile, is selling at only about 5 times my 1981 earnings estimate, has no debt, and has about $10 a share in cash on its balance sheet. Growing at an estimated 12-15% a year, Lane also is an attractive investment.

Mr. Brantley: I'm glad that you mentioned that area because so many of our shareholders are North Carolinians and the furniture industry is very important to North Carolina and Virginia. Bob Curran?

Mr. Curran: I do think that the building materials retail sector is very interesting. Besides Lowe's there are a number of companies that are worth considering. I think, in particular, Payless Cashways is worth noting at this point. It's a company that's had possibly the best record during the past decade in that sector. The company stumbled in 1980: there were some management errors; a very depressed farm economy, primarily in Iowa, an area in which they have a number of their most profitable units — reflecting problems with the availability and the cost of credit, especially early in 1980. In any case, I believe that the company has now started to return to its normal pace, in the new fiscal year. In addition I think that as a result of the problems that they suffered in 1980 that the board of directors and the management have sought to become more flexible in their approach and strategy towards retailing. I think that this can only work to the advantage of the company. I think Payless can once again return to earnings growth in excess of 20%.

An area that was mentioned a little bit earlier in terms of an economist's projections of housing demand and how it was to be met was the mobile home sector which might be worthy of some mention here. It's an area that has been very volatile in the past, had great promise in the late '60s and early '70s, but foundered through most of the remaining '70s. I think the positive evolutionary developments that have occurred in the latter part of the '70s are continuing in terms of the quality of the unit, legislation, zoning, and certain government support programs. I think more favorable general attitudes at least in core market area, the so-called Sun Belt, will work to the advantage of the industry. Possibly most important is the initial offering of land-home packages in certain localities. In sum, I think that a number of companies, like Redman and Skyline, will be beneficiaries of strong mobile home growth through the decade of the '80s.

'. . . the building materials retail sector is very interesting.'

Mr. Brantley: Bruce?

Mr. Missett: Broadly speaking and looking at the retail segments, market share, which has been mentioned by everybody, has to be the key. Market share comes to retailers really through having a more efficient distribution system for certain kinds of goods and services. Obviously, the home improvement center is a better way of distributing its products than certain traditional distributors of those goods. It also has to be benefitting from the continued higher rate of demand than exists for other retail segments of the industry. There are a number of other improved distributors of particular kinds of goods. To name some of them, obviously there has been a market share gain of some significance in the toy industry by one company. Just as it has been in the electronics industry with a company such as Tandy. There are still market share gainers in the apparel industry although this hasn't been one of the strongest segments of retail classifications in the last two years. But to create a definition for what might be attractive in the retail industry it has to carry those companies that can gain market share and what is a difficult economic environment or a difficult retail environment.

'What might be attractive: those that can gain market share . . . in a difficult environment . . .'

Mr. Brantley: Of the big department store organizations which one do you like?

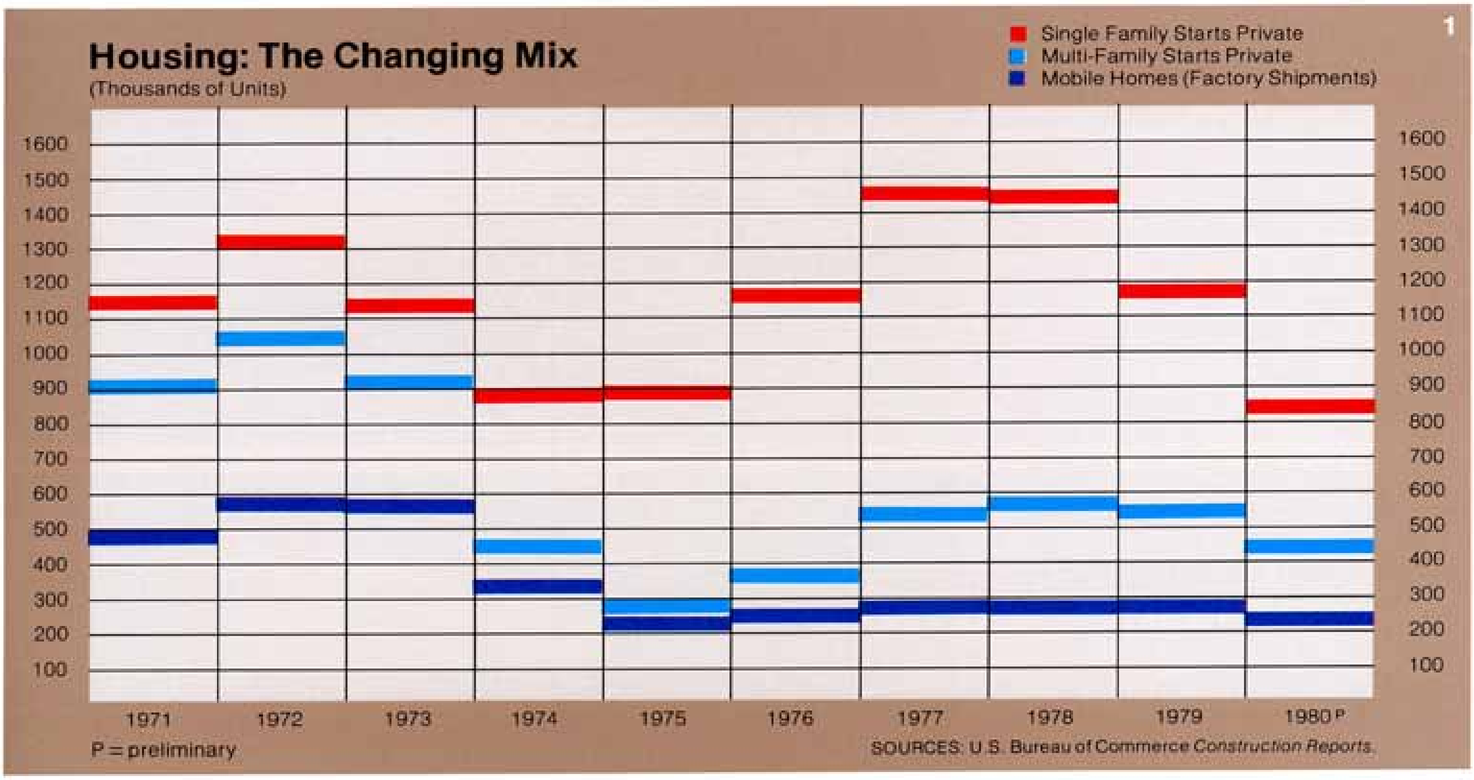
Mr. Missett: The department store industry changed dramatically during the last 10 years. Those that have changed the most or have become the best merchants and the most efficient distributors of fashion goods in shopping malls would be at the top of the list. At this point, I would pick Federated. But I think it's more difficult to make choices in department store industry because it's a more difficult environment to operate in.

Mr. Strickland: I would like to thank the panel very much and say that I have read many of you, not only in your own writings, but in the Wall Street Transcript, so we look forward to seeing this in the Lowe's Park Avenue Transcript in our forthcoming Annual Report. Thank you so much for your time and talent.

The Housing Mix: Starts of new family private houses totaled 1,292,000 for the year 1980. This was the second lowest level of starts recorded in the decade, exceeded only by the 1975 performance of 1,160,000 starts. The drop in multi-family starts was nearly as severe, dropping 26.5% from 551,000 starts in 1979 to 440,000 starts during 1980. Shipments of mobile homes were off by 21% from 1979 levels. The decrease in private housing starts during 1970 was a continuation of a trend begun during 1979 and made worse by the continued levels of high inflation and of extremely high mortgage rates. Mortgage interest rates, topping 15% during the course of 1980, effectively drove the market to a virtual standstill, especially in the second quarter of 1980 where housing starts at an annual level hovered at or below the one million mark, actually falling as low at 906,000 in May.

The outlook for 1981 is mixed. Forecasts vary from a level of 1,200,000 private starts in 1981 to a level of 1,500,000 new starts. Lowe's believes that the actual number of new housing starts for 1981 will be somewhere within this range. However, it will be necessary to watch closely trends in inflation, and the actual performance of interest and mortgage rates in the first part of 1981. Lowe's remains optimistic that inflation and interest rates will decline slowly throughout the year and mortgage interest costs will follow. As the economic picture brightens, the demand for new housing which has been pent up for the last two years should result in a strong demand for housing through the end of 1982 and well into the decade of the '80s.

Construction Spending Components: Actual expenditures for construction during 1980 remained relatively flat in current dollars. The total construction spending figure of $227 billion for 1980 is only marginally lower than the $228 billion spent during 1979. The only component of construction spending which dropped during 1980 was new housing expenditures which declined nearly 20% from 1979 levels. The other construction spending component which is of interest to Lowe's is the private additions and alterations to existing residences which grew by 7% from $18.2 billion in 1979 to $21.3 billion in 1980. Even more significant is the compound annual growth rate experienced by the private additions and alterations construction component for the decade.



Construction Spending Components

2

(Billions)

	Government	New Housing	Private Additions and Alterations	Commercial and Industrial	Other	Total
1970	$28.1	$24.3	$ 6.2	$16.3	$20.0	$ 94.9
1975	40.9	34.4	10.9	20.8	27.5	134.5
1976	39.1	47.3	12.3	19.9	32.5	151.1
1977	38.2	65.7	14.2	22.5	33.4	174.0
1978	45.9	75.8	16.3	29.6	37.9	205.5
1979	49.0	78.6	18.2	39.9	43.2	228.9
1980P	55.1	62.9	21.3	43.3	45.1	227.7
1970-1980 CGR*	7.0%	10.0%	13.1%	10.3%	8.5%	9.2%

*Compound Growth Rate

SOURCES: *Economic Indicators, Construction Review*

Regional Housing Activity: While total U. S. housing starts declined by nearly 26% in 1980 from 1979 levels, the smallest drop occurred in the South where Lowe's is located, declining only 13.7% from 1979 housing start levels. The relatively strong performance of the South is further reflected in the fact that nearly 50% of all housing starts in the U. S. during 1980 were in the South and, further, 47.5% of all permits for new private housing starts were issued in the South. The high levels of housing starts in the South should continue through the 1980s as population migration continues to swell the ranks of the southern states' population. The future of the new home building industry in the South is further buoyed by the fact that the largest percentage of the population in the primary household formation years is located in the South.

Trends in Prices: A primary component of the rise in new housing costs has been the increase in the cost of materials to construct new private dwellings. From 1970 to 1980 the Consumer Price Index rose at an annual rate of 7.8% while the index of all construction material costs rose at an annual rate of 9%. This high rate of increase for construction materials costs for the decade of the '70s was one of the reasons housing costs rose so dramatically during the 1970s. The trend in costs for construction materials, however, appears to be changing.

From 1979 to 1980 the Construction Material Index rose only 6% while the CPI rose 13.5% in the same period. Performance of the various components of the Construction Materials Index, however, varied dramatically during 1980. The cost of southern pine and plywood actually dropped during 1980 with the southern pine cost index dropping 8% (an even greater decrease than the overall increase in construction materials costs). Other components such as roofing asphalt, plumbing supplies, and hardware, all rose in price by more than 10% with roofing asphalt recording the largest gain of 18.5% followed by plumbing at 13.5% and hardware at 12%. The drastic increases in these areas can be directly linked to the increases in petroleum costs which in some areas rose by 25%. For example, the asphalt shingle is a petroleum-based product, as are many of the plumbing products such as plastic pipe which is made from a petroleum by-product. Many hardware supplies and other plumbing products are constructed of ferrous metals which require a large amount of energy to transform raw materials into usable consumer products.

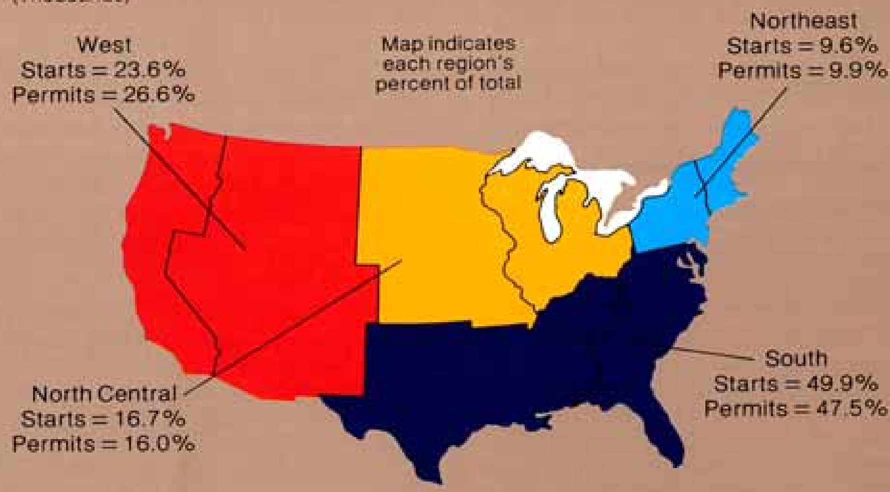
The general slowing of the cost spiral for construction materials appears to be another sign that the housing industry will experience a strong surge in growth in the near future as the economy becomes more favorable and the pent-up demand for new housing is freed.

3

Regional Housing Starts & Permits

Private Housing Starts Only

(Thousands)



	U. S.		Northeast		North Central		West		**South**	
Year	Starts	Permits	Starts	Permits	Starts	Permits	Starts	Permits	**Starts**	**Permits**
1971	2052	1981	271	308	440	430	490	478	**884**	**737**
1972	2357	2239	334	338	445	443	532	543	**1068**	**915**
1973	2045	1830	277	273	440	364	429	425	**899**	**768**
1974	1338	1088	183	166	317	244	285	281	**553**	**397**
1975	1160	949	149	130	294	243	275	278	**442**	**298**
1976	1538	1303	169	152	400	326	400	418	**569**	**406**
1977	1987	1692	202	182	465	403	538	545	**783**	**563**
1978*	2020	1801	200	194	451	388	545	551	**824**	**668**
1979*	1745	1552	178	167	349	289	470	468	**748**	**628**
1980*	1292	1182	126	117	216	189	305	314	**645**	**562**

*Permit figures for 1978 through 1980 are for 16,000 permit-issuing places and are not, therefore, directly comparable to permit figures prior to 1978, which reflect 14,000 permit-issuing places.

SOURCES: *Construction Review, Construction Reports*

4

Trends of Construction Costs and Prices

(Index 1967 = 100)

	Consumer Price Index	All Durable Goods	Food	All Construction Materials	Southern Pine	Plywood
1970	116.3	111.8	114.9	112.5	114.5	108.5
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	228.3	304.6	235.6
1979	217.4	191.1	234.5	251.4	324.2	250.5
1980	246.8	210.4	254.6	266.3P	297.4P	246.6P

	Millwork	Gypsum	Roofing Asphalt	Plumbing	Brick	Hardware
1970	116.0	100.0	101.8	112.5	112.2	112.9
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	288.8	199.1	234.4	187.7
1979	254.3	252.3	314.4	217.1	263.1	205.2
1980	260.5P	257.1P	372.7P	246.6P	280.9P	229.8P

P = Preliminary

SOURCES: *Economic Indicators, Construction Review*

Existing Home Sales: While the total number of existing homes sold in the U. S. grew at an annual rate of about 6% from 1970 to 1980, the total dollar volume generated by those sales grew at an annual rate of 17.6% over the decade.

During 1980 the number of existing homes sold dropped by 22% as persons were forced out of both the new and existing home markets by skyrocketing inflation and housing costs. Across various sections of the country the drop in existing home sales varied little from the 22% decline experienced nationally. In the Northeast, units sold decreased by 24% while in the South the 19% drop was only marginally less than the national rate. However, it should be pointed out that sales of existing homes in the South accounted for 40% of the total sales in the U. S. during 1980.

Cost of New Homes: During 1980 the median sales price of a new single family home reached $64,600. During the 1970s the median sales price of a single family home rose at an annual rate of 10.7% from $23,400 in 1970 to the $64,600 level in 1980. The increase in median price from 1979 to 1980, however, was only 2.7%. The small increase in cost of new housing during 1980 was probably affected by among other things lower commodity prices as previously mentioned, the general trend toward down-sizing of homes, and perhaps increased price competition from the existing home sales market. The long-term trends in the cost of new housing for the 1980s will be a function of three interrelated components: interest rates, square footage of new residential construction and the amenities included in new homes built.

Remodeling Expenditures: During 1980 Americans spent $46.3 billion to remodel and repair their existing homes. This was an increase of 9.7% over the expenditure levels of 1979 and although lower than the 12.1% annual growth rate experienced for the decade of the 1970s reflects the desire of American families to continually improve their homes. The rise in remodeling expenditures is also a result of the decision by many families to keep existing housing and add to or improve it due to the extremely high costs of new housing and the prohibitively high interest rates experienced recently.

Existing Home Sales*

5

	U.S.		Northeast	North Central	West	South	
	Units Sold (000)	Dollar Volume (Billions)	Units Sold (000)	Units Sold (000)	Units Sold (000)	Units Sold (000)	% of US Total
1970	1612	$ 41.4	251	501	292	568	35%
1971	2018	56.5	311	538	389	735	36
1972	2252	67.8	361	630	473	788	35
1973	2334	76.8	367	674	446	847	36
1974	2272	81.3	354	645	434	839	37
1975	2452	95.6	377	685	491	899	37
1976	3002	126.7	458	843	591	1110	37
1977	3547	170.1	480	1110	703	1254	35
1978	3863	214.4	494	1132	741	1495	39
1979	3701	237.6	504	1050	720	1427	39
1980	2881	209.7	384	797	547	1154	40
1970-80 CGR**	6.0%	17.6%	4.3%	4.8%	6.5%	7.3%	

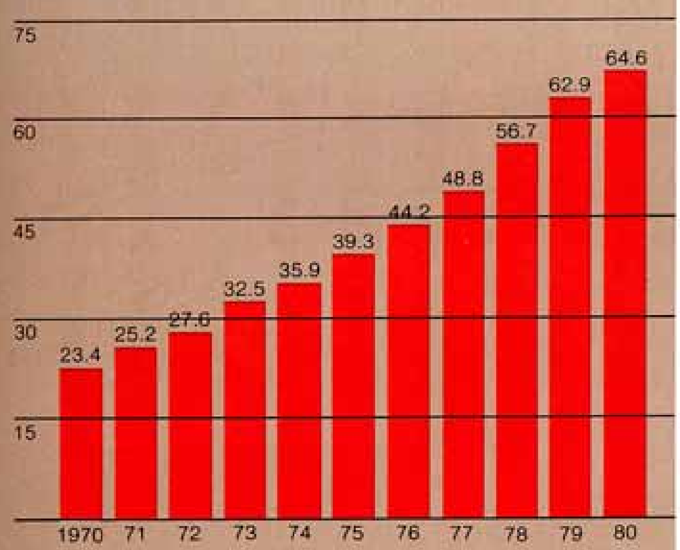
*Reflective of sales of previously owned homes, does not include new housing
**Compound Growth Rate

SOURCE: National Association of Realtors

Cost of New Homes

6

Single Family, Median sales price
(Thousands)

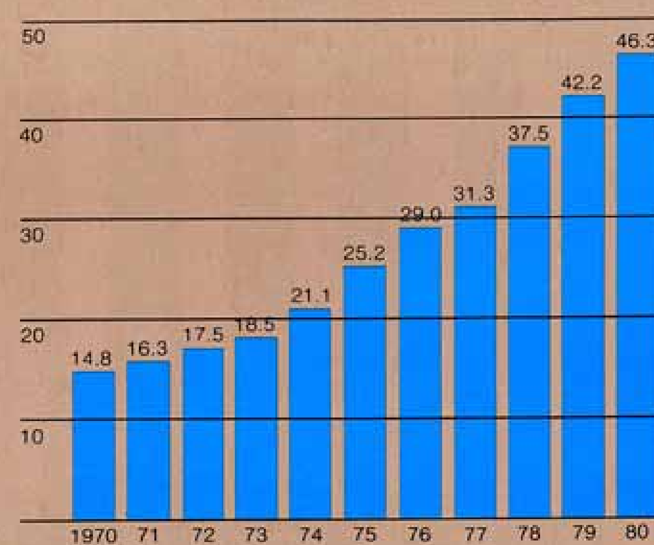


SOURCE: *Construction Reports*

Remodeling Expenditures

7

(Billions)



SOURCE: Residential Alterations and Repairs, *Construction Reports*

Population and Growth

Population and Households: From 1970 to 1980 the country's population increased by about 11%. This increase is less than the 13% increase experienced from 1960 to1970 and the 19% increase from 1950 to 1960 when the Baby Boom was in full swing. Current projections indicate that the population will increase by only 7% in the 1980s as Baby Boom parents opt for smaller families and the impact of birth control is felt. In the South, where the population grew by 20% in the 1970s, current forecasts predict that growth will slow to 11% in the 1980s, still above the national pace.

As the population increases so does the need for housing. From 1970 to 1980 the growth of households in the U.S. far outstripped the growth of the population increasing by 27% nationwide and by 35% in the South. Through 1990, this trend should continue as the number of households is projected to increase by 20%. Much of this growth was due to a phenomenon known as "undoubling" which is the creation of two or more households where previously only one existed. The size of the average U.S. household dropped from 3.1 persons to 2.7 persons as the Baby Boom generation began leaving home and establishing new households.

Some of these new households were created by single persons who are putting off marriage in favor of establishing themselves in a career. The number of single person households increased from 10 million in 1970 to 17 million in 1978. Dramatic increases in the divorce rate have resulted in the establishment of two homes where previously only one existed. In fact, female heads of households now comprise 26% of the population and this number is projected to increase to 30% by 1995. Some of the increase in female heads of households resulted from young females establishing single person households.

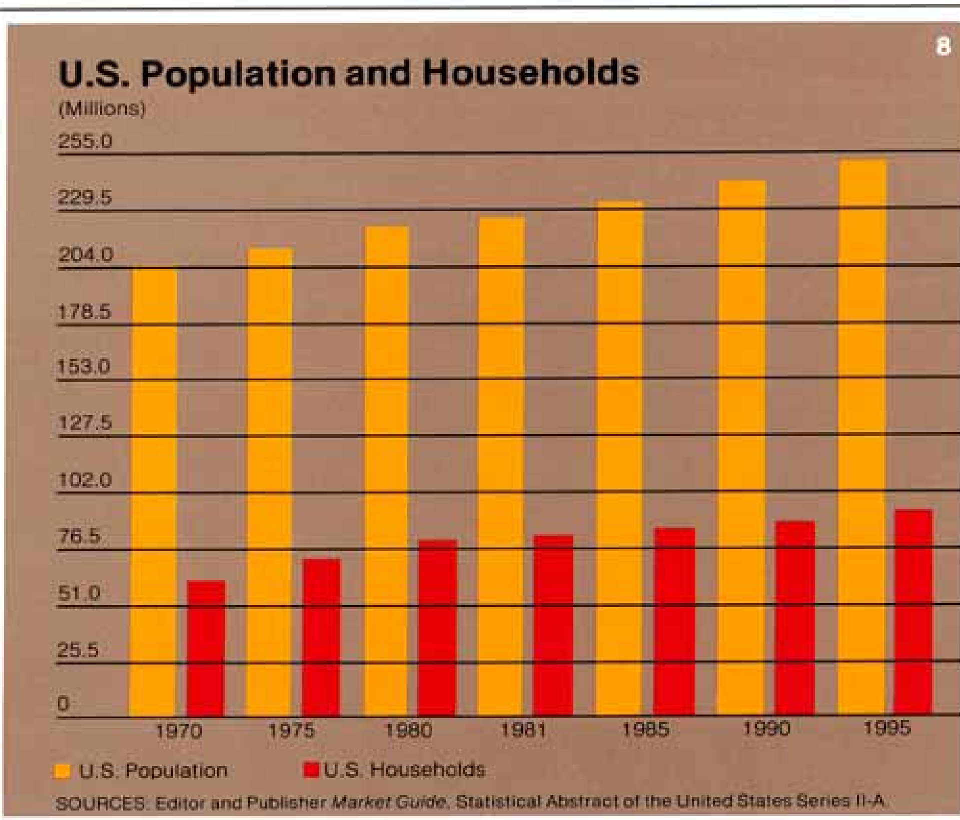
Selected Household Statistics

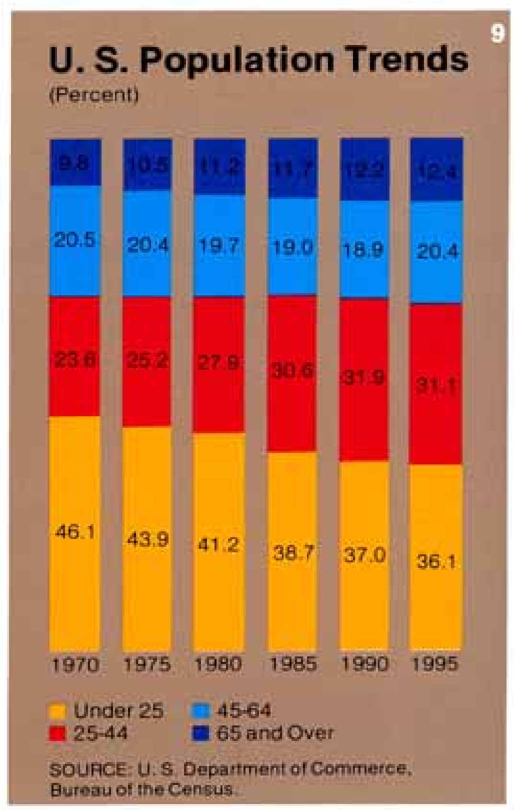
Year	Size of Household	Female Head of Household
1970	3.14	21.1%
1975	2.94	23.6
1980	2.73*	26.3**
1985	2.58*	27.7**
1990	2.47*	28.9**
1995	2.39*	30.1**

*Series B Household Projections
**Series C Population Projections

SOURCE: U.S. Bureau of the Census

Population Trends: One of the most dramatic forces to affect life in the United States since World War II was the Baby Boom which followed the end of the war and lasted through the early 1960s. The babies of the boom are now entering the primary household formation years (age 25-44) in great numbers. From 1970 to 1990 the 25-44 age group will increase from 24% of the population to 32%. At the same time the number of persons under 25 will decrease from 46% of the population in 1970 to 37% of the population in 1990 and the median age of the population will increase from 28 to 33. As the Baby Boom population bulge moves from the under 25 age group into the household formation age group their passage is creating the same kind of problems that their movement through public schools, and later through college, caused. Never before has the country seen the demand for housing of the magnitude the Baby Boom generation is causing just as they created heretofore unheard of demands on the educational system as they moved through it. Lowe's is watching this development closely and will continue to adjust its future plans to react properly to changes which will occur.





10

Regional Demographics — 1980

	Population (000,000)	Households (000,000)	Age Group Distribution (Add Down) 0-24	25-34	35-49	50 & Over
New England	12.4	4.5	5.4%	5.5%	5.6%	5.9%
Middle Atlantic	37.1	13.6	15.6	15.9	17.4	18.3
NORTHEAST	49.5	18.1	21.0	21.4	23.0	24.2
South Atlantic	**35.8**	**12.9**	**15.8**	**16.0**	**15.9**	**16.2**
East South Central	**14.2**	**5.0**	**6.6**	**6.3**	**6.2**	**6.3**
West South Central	**22.8**	**8.2**	**10.8**	**10.2**	**9.9**	**9.6**
SOUTH	**72.8**	**26.1**	**33.2**	**32.5**	**32.0**	**32.1**
Mountain	10.9	3.9	5.2	4.9	4.7	4.3
Pacific	30.7	11.6	13.8	14.8	14.2	13.1
WEST	41.6	15.5	19.0	19.7	18.9	17.4
West North Central	17.2	6.3	7.8	7.6	7.4	8.2
East North Central	41.6	14.8	19.0	18.8	18.7	18.1
MIDWEST	58.8	21.1	26.8	26.4	26.1	26.3
TOTAL U.S.	222.7	80.7	100%	100%	100%	100%

SOURCES: Editor and Publisher *Market Guide*, S&MM *Survey of Buying Power*.

11

Regional Population and Household Growth Rates

GROWTH RATES 1970-80

A. Population Annual % Growth (U.S. Average = .9%)

B. Number of Households Annual % Growth (U.S. Average = 2.4%)

SOURCE: Editor and Publisher *Market Guide*.

Regional Demographics: The group of states generally referred to as the South currently contain 32.7% of the total U.S. population. Nearly two-thirds of the southern population is concentrated in the Southern Atlantic and East South Central sections of the country where 191 of Lowe's 214 stores are located. More than 32% of total U. S. households are also located in the South. The South also contains the largest concentration of persons in the primary household formation years (age 25 to 44) with over 22% of this age group residing in the South Atlantic and East South Central sections of the country.

Regional Population and Household Growth Rates: During the 1970s the South Atlantic and South Central sections of the country grew at a rate nearly three times that of the national average. The number of households in the South Atlantic and South Central sections of the country also grew at a faster rate than the national average growing at annual rates of 3.1% and 3.0% respectively. Only the Mountain region of the country exceeded the growth rate of the South with population increasing at a 2.7% annual average and the number of households growing at a 4.3% annual rate.

Regional Employment Trends: The growth of the South during the 1970s has as an integral feature augmented opportunities for manufacturing employment. In 1970, 28.7% of the total non-agricultural work force was employed in the South. By 1980, 32.2% of the non-agricultural work force was employed in the South. As industry continues to move South during the 1980s these employment trends should continue.

Regional Non-Agricultural Employment Trends

	% of Total Workforce 1970	1980P
Northeast	26.4%	22.7%
Midwest	28.2	26.3
South	28.7	32.2
West	16.7	18.8
Total:	100%	100%

SOURCE: U. S. Department of Commerce, Bureau of Labor Statistics
P = Preliminary

Gross National Product: The market value of the total national output of goods and services (Gross National Product or GNP) rose to a record 2.6 trillion dollars in 1980, an increase of 9% over the 1979 GNP of 2.4 trillion dollars. Prices paid for goods and services as measured by the Consumer Price Index (CPI) rose at a seasonally adjusted annual rate of 13.5% during 1980. In essence consumers paid more and bought less goods and services during 1980. Disposable Personal Income (DPI) rose 11% in 1980 to $1.8 trillion dollars below the 12% year-to-year gain recorded in 1979 and well below the 13.5% year-to-year increase in consumer prices. The result is stagflation. Personal consumption expenditures rose by 11% in 1980 to a seasonally adjusted annual rate of 1.7 trillion dollars with nearly all of the increase being for non-durable goods (+12%) and services (+13%). For the decade, however, prices have risen at an annual rate of 8% while GNP, DPI and PCE have risen at rates of approximately 10% annually.

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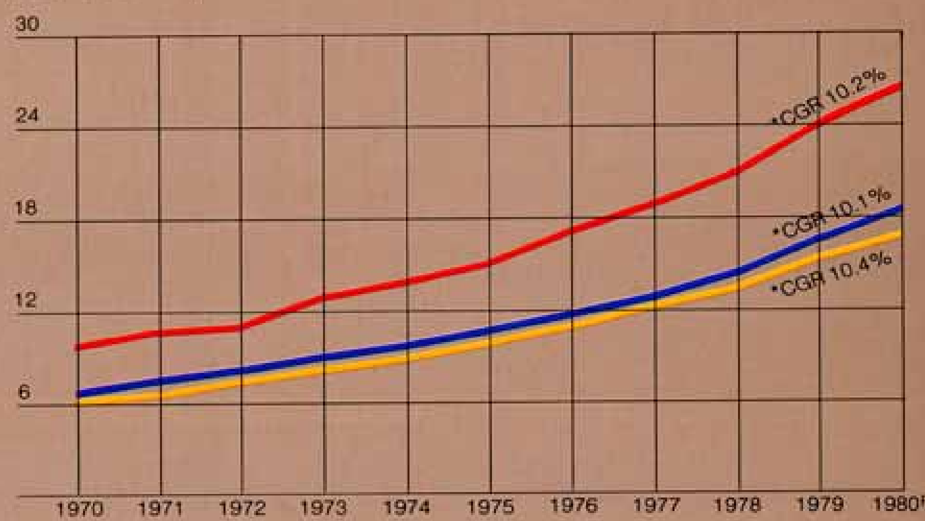
Gross National Product

Personal Consumption Expenditures and Disposable Personal Income

(Billions of Dollars)



GNP Disposable Personal Income Personal Consumption Expenditures

*Compound Growth Rate P = Preliminary SOURCE: *Economic Indicators*

Regional Household Buying Income: Total effective buying income increased 11% from 1979 to 1980 and reached the $1.6 trillion level. Again, however, the Consumer Price Index increased by 13.5% and eliminated any gains made by workers. Only in the South (+12%) and West (+15%) did income rise faster than the national level and only in the West did income rise faster than the general inflation rate as measured by the Consumer Price Index. Since 1970 effective household buying income has risen at an annual rate of 10.1% and only in the South has EBI risen faster than the national average increasing at an annual rate of 12%. In 1980 the South contained 30% of the total U. S. effective buying income up from 26% in 1970.

The most marked increase revealed in

13

Regional Household Buying Power

	1980 Total EBI* (000,000)	1979 Total EBI* (000,000)	% Change 1979-80	Number of Households by Effective Buying Income* Group (1979): Under $8000 (000)	$8,000-9,999 (000)	$10,000-14,999 (000)	$15,000-24,999 (000)	$25,000 & Over (000)
New England	$ 92.4	$ 83.1	+11%	788.2	213.5	627.4	1,404.4	1,284.3
Middle Atlantic	282.9	262.2	+ 7	2,528.3	664.1	1,912.1	4,073.8	4,004.4
NORTHEAST	375.3	345.3	+ 8	3,316.5	877.6	2,539.5	5,478.2	5,288.7
South Atlantic	**241.7**	**217.1**	**+11**	**2,916.2**	**772.0**	**2,025.8**	**3,563.0**	**3,144.9**
East South Central	**87.1**	**77.7**	**+12**	**1,418.4**	**314.6**	**767.0**	**1,283.9**	**1,060.0**
West South Central	**158.6**	**138.0**	**+14**	**1,947.3**	**455.6**	**1,127.6**	**2,070.8**	**2,241.2**
SOUTH	**487.4**	**432.8**	**+12**	**6,281.9**	**1,542.2**	**3,920.4**	**6,917.7**	**6,446.1**
Mountain	74.8	63.7	+17	781.8	208.0	569.0	1,128.9	1,026.0
Pacific	252.1	218.4	+15	2,257.9	580.7	1,567.5	3,354.4	3,714.0
WEST	326.9	282.1	+15	3,039.7	788.7	2,136.5	4,483.3	4,740.0
West North Central	124.9	111.1	+12	1,365.4	337.2	862.4	1,787.8	1,758.1
East North Central	318.3	286.2	+11	2,604.3	635.5	1,802.6	4,445.1	4,857.8
MIDWEST	443.2	397.3	+11	3,969.7	972.7	2,665.0	6,232.9	6,615.9
UNITED STATES	$1,632	$1457.5	+11%	1,6607.8	4,181.2	11,261.4	23,112.1	23,090.7

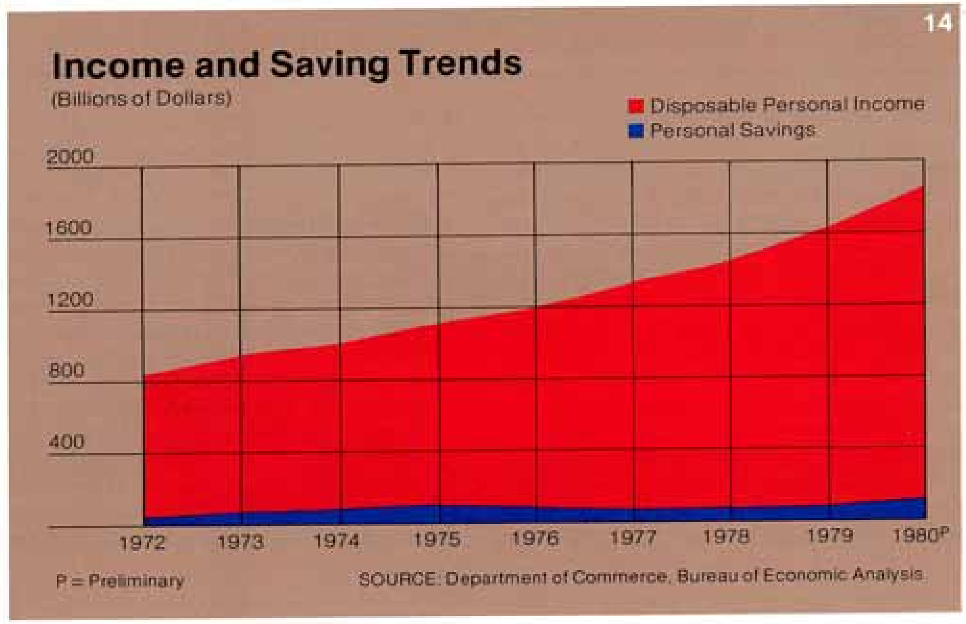
*Effective Buying Income equals income minus taxes, levies, etc.

SOURCES: Editor and Publisher *Market Guide*, S&MM *Survey of Buying Power*.

chart 13 is the growth in the number of households with incomes over $25,000. In 1978 these households constituted 24% of total households and in 1979 (latest year available) they represented 30% of the total. Since 1970 the total number of women in the work force has risen from 38% to 42% and in the same time period the number of married women in the work force has risen from 41% to 48%. These working women provide an ever-expanding market for home decorations/renovation projects and labor saving devices, and have made an impact on the marketing strategy of many building supply retailers.

Consumer Spending: During 1980 consumers spent a record $1.7 trillion on consumption expenditures. While spending for automobiles and auto parts (durable goods) declined for the year by $6 billion, expenditures for gasoline and oil (non-durable goods) rose by $21 billion. Expenditures for services also rose by 13% to $785 billion.

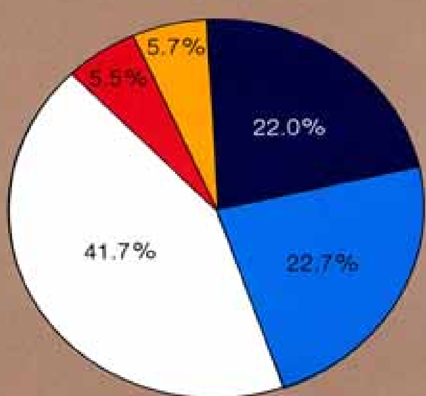
From 1970 to 1985 it is projected that the service industry will experience the largest increase in consumer spending, rising from 43.6% of total consumption expenditures to 48.6%. Much of this increase is projected to be in the area of spending for housing and household operation. This will be due, to a great degree, to the rise in energy prices which already are having an effect on American life.



Savings Trends: Since 1972 Disposable Personal Income has risen at an annual rate of 11% from $810 billion in 1972 to $1,822 billion in 1980. During the same time period personal saving rose from $53 billion to $104 billion for an annual growth rate of 9%. Since 1972 the percentage of disposable income saved rose to 8.6% in 1975 and fell to a low of 5.2% in 1979. During 1980 the savings number turned up to 5.7% of disposable income saved. As household formation continues at a high rate during the next decade saving will probably remain low but will begin to creep upward as the Baby Boom generation begins to get itself established in new homes and as incomes rise.

Consumer Spending

1975



	% of Total	Billions of Dollars
Durable Goods	13.5%	$132
Furniture and Household Equipment	5.5	54
Automotive	5.7	56
Services	44.8	437
Housing and Household Operation	22.0	215
Other Consumer Services	22.7	222
Non-Durable Goods	41.7	407

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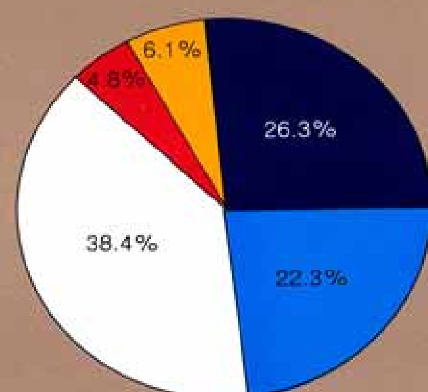
1985



	% of Total	Billions of Dollars
Durable Goods	13.0%	$386
Furniture and Household Equipment	4.8	141
Automotive	6.1	181
Services	48.6	1,441
Housing and Household Operation	26.3	779
Other Consumer Services	22.3	662
Non-Durable Goods	38.4	1,138

SOURCE: U.S. Department of Commerce, U. S. Department of Labor

Retailing and Competition

U. S. Retail Sales: For 1980 it is not surprising that the greatest increases in sales were recorded by gasoline stations which experienced 25% increases in prices during the year. Nationwide sales of lumber, building materials, hardware and mobile homes were off by 4.2% in a market that was severely affected by record high interest rates.

For the decade of the '70s LBH sales grew at the fastest rate of any item except gasoline. As the cost of energy continues to rise and as Americans spend increasing amounts of time at home, the sale of home improvement and building supplies should be stimulated as a result. The primary increases in the LBH market, however, should come as a result of the continued high demand for housing and the Baby Boom's efforts to turn houses into homes.

As Lowe's moves into the 1980s, an ever increasing emphasis will be placed on the development of a stronger retail franchise.

Pertinent Retail Category Sales: Chart 17 is an attempt to create a retail group most closely resembling Lowe's unique business. We have combined both LBH and furniture/appliance groups but have removed mobile home dealers and full-line furniture stores, since we really do not compete in these businesses. Categories 1A, 1B and 2B are the major retail groups most relevant to Lowe's. Sales for this specialized group dropped by 2% from 1979 to 1980.

For the past decade this specially created retail group grew at an annual rate of 10.3%. There were, however, some variances in sales growth among the groups making up the Lowe's retail business group. Category 1A (lumber yards, building material dealers, etc.) grew at an annual rate of 11.5% while category 1B (hardware stores) sales rose at an annual rate of 10.7%. Sales of Category 2B (household appliances, TV and radio) items grew at only a 7.6% annual rate representing the mature market characteristics of white goods (appliances) and

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U. S. Retail Sales

(Millions)

	1970	1975	1979	1980P	1979-80 % Change	1970-1980 CGR*
Food	$ 89,793	$138,006	$191,326	$212,036	+ 10.8%	+ 9.0%
Eating/Drinking Places	31,463	51,427	75,139	81,182	+ 8.0	+ 9.4
General Merchandise	49,981	73,761	110,233	116,769	+ 5.9	+ 8.9
Apparel Group	20,742	31,669	43,028	45,626	+ 6.0	+ 8.2
Furniture and Appliance Group	17,806	28,114	41,868	43,708	+ 4.4	+ 9.4
Automotive	63,098	105,288	177,714	166,590	− 6.3	+ 10.2
Gasoline Stations	29,340	47,387	71,894	92,550	+ 28.7	+ 12.2
Drug and Proprietary Stores	13,783	19,412	27,174	30,510	+ 12.3	+ 8.3
Liquor Stores	8,272	12,169	15,595	16,913	+ 8.5	+ 7.4
Lumber, Building Materials, Hardware and Mobile Homes	17,615	26,262	52,239	50,051	− 4.2	+ 11.0
Durable Goods	109,889	178,887	308,156	300,381	− 2.5	+ 10.6
Non-durable Goods	261,193	401,558	577,891	643,943	+ 11.4	+ 9.4
United States	371,082	580,445	886,047	944,324	+ 9.0	+ 9.8

*Compound Growth Rate

SOURCE: Department of Commerce *Retail Trade* P = Preliminary

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Pertinent Retail Category Sales

(Millions)

	1970	1975	1979	1980P	1970-80 CGR**
1. Lumber, Building Materials, Hardware, Mobile Home Group	$17,615	$26,262	$52,239	$50,051	11.0%
*A. Lumber Yards, Building Material Dealers, Paint, Plumbing and Electrical Stores	11,248	17,793	35,102	33,371	11.5%
*B. Hardware Stores	3,228	4,935	8,993	8,938	10.7%
C. Mobile Homes & Other	3,139	3,534	8,144	7,742	9.5%
2. Furniture & Appliance Group	$17,806	$28,114	$41,868	$43,708	9.4%
A. Furniture, Home Furnishings Stores	10,578	16,740	26,726	27,301	10.0%
*B. Household Appliance, TV, Radio	6,147	8,898	12,119	12,796	7.6%
C. Other	1,081	2,476	3,023	3,611	12.8%
*Totals 1A, 1B, 2B:	$20,623	$31,626	$56,214	$55,105	10.3%

**Compound Growth Rate P = Preliminary SOURCE: Department of Commerce *Retail Trade*.

the lack of inflation in brown goods (televisions, radios).

The next decade should provide excellent opportunities for Lowe's to continue to grow. As more new homes are created the demand for Category 1A and B items as well as household appliances (part of Category 2B) demand for these items should be very strong. As Americans are forced to spend more time at home due to increases in cost of gasoline and transportation, the demand for new home entertainment devices such as video tape and disc units should be very strong. Looking to the future, Lowe's is already increasing its share of market in all of our relevant retail sales categories and will closely watch the growth of the highly profitable home entertainment product group.

Regional Retail Sales: The activity of the retail segment of the market is of particular importance to Lowe's because of Lowe's mission as a retailer, more precisely as a retailer of lumber and building materials in the southern United States.

During the year retail sales registered the strongest gains in the South, moving ahead by 9.2% over the 1979 pace and growing at an annual rate of nearly 12% for the decade. This growth trend is likely to continue during the next ten years although some slowing is projected to occur. The lumber, building material and hardware segment of the retail market did not fair so well during 1980 largely due to the lack of home building activity. For the decade, however, the southern and western regions of the country turned in growth rates in the LBH market that were nearly double the rest of the country.

The strong retail performance in the South is indicative of the underlying strength of the economy of this section of the country. Most predictions are pointing toward a continuing migration of people to the South from the decaying and depressed industrial regions of the North and the Midwest. Lowe's is positioning itself to continue its successful competition in the retail markets of the South in the 1980's.

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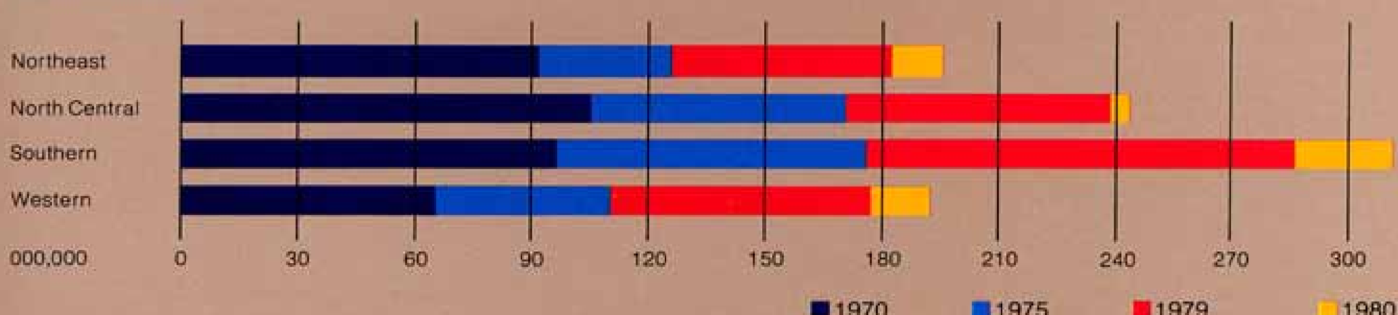
Regional Retail Sales

(Millions)

	1970	1975	1979	1980P	1979-80 % Chg.	1970-80 CGR **
Northeast Region						
All Stores	$ 90,029	$126,343	$180,812	$194,891	+7.8%	8.0%
All Durables	24,207	33,463	53,449	54,347	+1.7	8.4
GAF Group	26,906	33,844	48,098	50,235	+4.4	6.4
LBH Group	3,364	4,593	6,868	6,871	0	7.4
North Central Region						
All Stores	105,519	170,557	239,487	243,673	+1.7	8.7
All Durables	32,272	54,241	84,898	76,779	−9.6	9.1
GAF Group	28,137	41,809	57,940	60,020	+3.6	7.9
LBH Group	7,687	12,852	15,313	13,342	−2.2	5.7
Southern Region						
All Stores	**103,524**	**177,239**	**286,865**	**313,218**	**+9.2**	**11.7**
All Durables	**32,521**	**58,666**	**104,139**	**104,474**	**+ .3**	**12.4**
GAF Group	**27,725**	**45,204**	**69,823**	**74,702**	**+7.0**	**10.4**
LBH Group	**5,374**	**10,636**	**17,912**	**17,757**	**− .9**	**12.7**
Western Region						
All Stores	65,499	110,284	178,883	192,541	+7.6	11.4
All Durables	20,694	34,355	65,670	64,780	−1.4	12.1
GAF Group	17,312	27,417	46,381	50,491	+8.9	11.3
LBH Group	$ 3,242	$ 6,123*	$ 12,146	$ 12,081	− .5	14.1

All Stores Sales



*Estimated
**Compound Growth Rate
P=Preliminary
Note: Regional figures for 1970 and 1975 are unrevised and include farm equipment in LBH.
SOURCE: Department of Commerce *Retail Trade*.

Fragmentation of the Competition: Nationwide there were 359 building and home supply centers with estimated sales volume in excess of $10 million in 1980. Nearly 40 per cent of those chains were stores with sales between $10 million and $15 million with an average of one to two retail outlets. The bulk of the sales volume for the retail giants is concentrated among a small group of firms with sales of more than $50 million annually who comprise only 17% of the total number of firms but account for 74% of the total retail volume. During the next decade it is anticipated that the total number of firms in the home center industry will slowly drop as smaller chains are merged with the larger already established home center retailing giants. During the next decade as a result of this consolidation the competition in the retail home building supply industry is projected to become very strong. Lowe's has recognized this trend and our current emphasis on our retail business is an outgrowth of the coming maturity of the home center business.

Growth of the Chains: The home building material center industry is a relatively recent phenomenon. Excluding such large retailers as Sears, J. C. Penney, and Montgomery Ward, the sales of the top 12 building supply giants have grown from 8% of the total lumber building materials and hardware market in 1972 to an estimated 18.6% of the total LBH sales for 1980. When the next 13 building supply chains are added to the list, the market share grows to over 23% for 1980. Much of this growth rate was due to an aggressive policy of acquisition and merger pursued by many of the building material retailers over the last 10 years. In the coming decade this growth should taper off slowly; however, the growth of the retail building material suppliers should continue to exceed that of the lumber building and hardware materials market.

Market Penetration: In the South where Lowe's is located, annual sales of lumber, building material and hardware supplies have grown at an annual rate of 10.2% since 1972. Lowe's sales for the same timeframe have grown at an annual rate of 18%. Lowe's annual sales growth has resulted in a near doubling of market share since 1972, from 2.9% of the total lumber, building material, hardware sales to 5% for 1980. Present plans call for a continued growth in Lowe's market penetration in the South over the course of the next decade. As Lowe's continues to add new stores and expand its total market coverage, our market penetration should continue in a positive direction.

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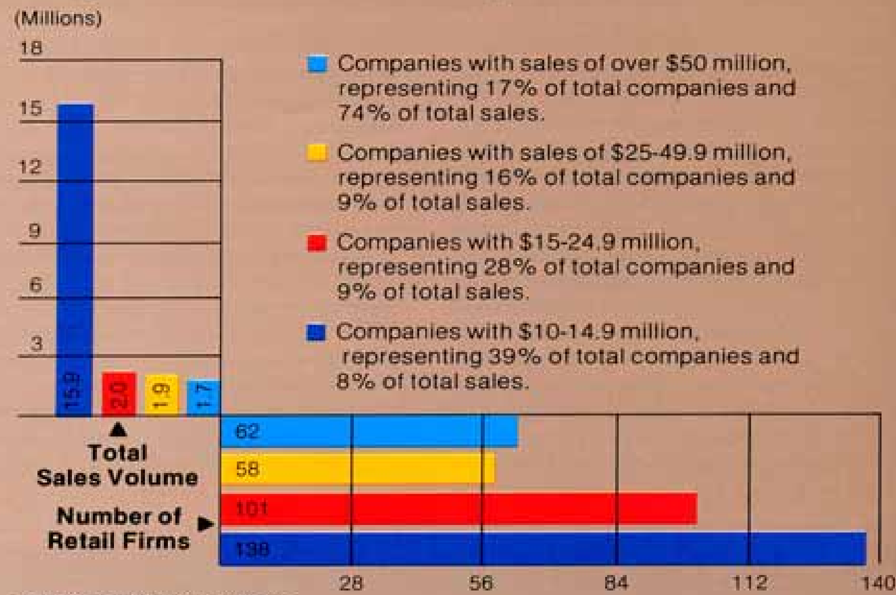
Fragmentation of the Competition



SOURCE: *Building Supply News*

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The Growth of the Chains

The 25 Largest Building Supply Retailers*

(Millions)

	1972	1975	1979	1980	1972-80 CGR**
Lumber, Building Materials, Hardware Sales—U.S.	$18,820	$22,728	$44,096	$42,309	10.7%
Sales of the top 12 building supply giants	$ 1,538	$ 2,292	$ 6,177	$ 7,866 (EST)	22.6%
% of total LBH	8.2%	10.1%	14.0%	18.6%	
Sales of remaining 13 giants	$ 546	$ 791	$ 1,666	$ 2,032 (EST)	17.9%
% of total LBH	2.9%	3.5%	3.8%	4.8%	

*Excluding mass merchandisers such as Sears, Kmart, Montgomery Ward and J. C Penney
**Compound Growth Rate
SOURCES: U.S. Department of Commerce *Retail Trade*, *Building Supply News*, *Frost & Sullivan*

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The Penetration of Lowe's

(Millions)

	1972	1975	1979	1980	1972-80 CGR†
Annual Sales of Lumber, Building Materials, Hardware—Southern Region*	$8,188	$10,636**	$17,912**	$17,757**	10.2%
Lowe's Annual Sales***	$ 235	$ 388	$ 905	$ 884	18.0%
Lowe's Sales as % of total LBH in South	2.9%	3.6%	5.1%	5.0%	

*LBH figures for 1972 & 1975 are unrevised and include farm equipment.
**LBH figures for 1979 & 1980 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*.

The Retail Customer: In the past 10 years the number of homeowners who have chosen to undertake repair and remodeling jobs on their own without the aid of a professional contractor has risen significantly. In a study recently conducted by *Home Center News* it was determined that nearly 85% of all American homeowners have undertaken some type of do-it-yourself home maintenance project. More than half (65%) of American homeowners report that they have purchased materials for a home improvement project in the last two years. This large number of homeowners who are undertaking home improvement projects are a source of great opportunity for Lowe's newly re-energized retail efforts.

The reason underlying decisions to undertake home improvement projects seem to indicate that people are generally no longer able to afford the services of professional contractors. In a recent study completed by *Home Center* magazine, 64.8% of those people who had undertaken home repair projects indicated that the ability to avoid paying a contractor was a reason for doing the work themselves. Surprisingly, more than half of the people undertaking do-it-yourself projects felt they were as competent or more competent than a professional contractor to perform the work. Also, the availability of time and enjoyment derived from undertaking the task were often mentioned. With current economic trends as well as the continued increase of leisure time, Lowe's anticipates that the do-it-yourself movement will continue for some time.

Demographics of the Retail Home Building Supply Customer: As would be expected, more than 50% of the retail home material customers are in the prime home formation years of age 25 - 44. These relatively young persons are in the process of establishing their homes, remodeling and repairing them to meet their home-owning needs.

The retail home building supply customer seems to be a highly educated individual. Nearly 54% have at least some college education. These highly educated people are capable of learning the skills and information necessary to successfully undertake home improvement projects on their own.

The higher levels of education also result in relatively high levels of income for the retail home building material supply customer. The Home Center Institute recently found that the median income for homes undertaking do-it-yourself projects was in excess of $21,000 per year, with 47% reporting incomes greater than $20,000 per year. In these income brackets, potential customers have disposable income to spend. It appears that, in ever increasing numbers, they are choosing to spend this disposable income to improve the living environment of their homes.

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The Retail Home Center Customer

Reasons for Doing-It-Yourself

	% Indicating*
Preferred to avoid paying a contractor	64.8%
Believe I could do as well or better than a contractor	56.3
Enjoy doing it	49.0
Had enough time	45.5
Could use better materials by not using a contractor	22.0

*Percents total more than 100 due to multiple mentions

SOURCE: *Home Center Magazine*

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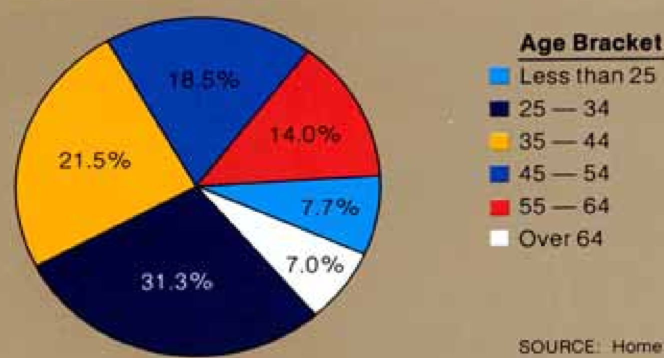
The Retail Home Center Customer
Age



SOURCE: Home Center Institute

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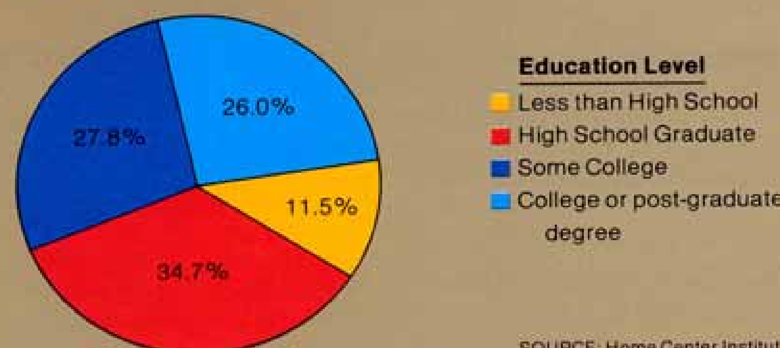
The Retail Home Center Customer
Education



SOURCE: Home Center Institute

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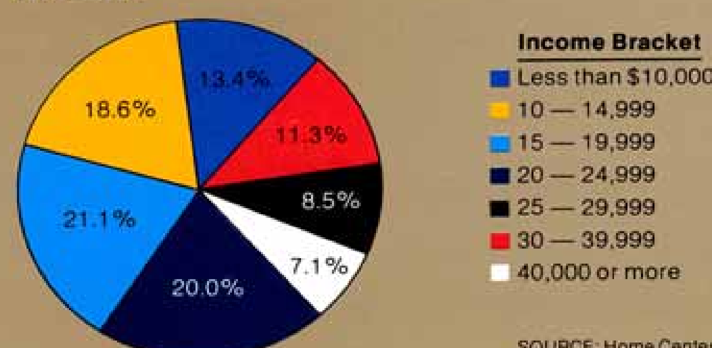
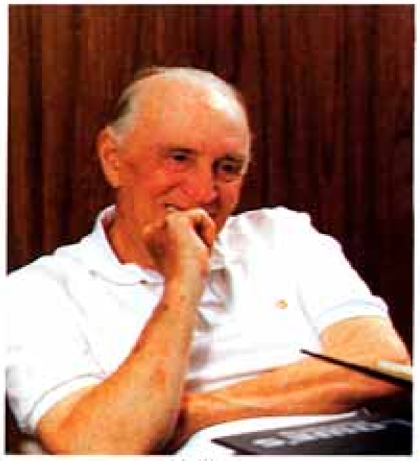
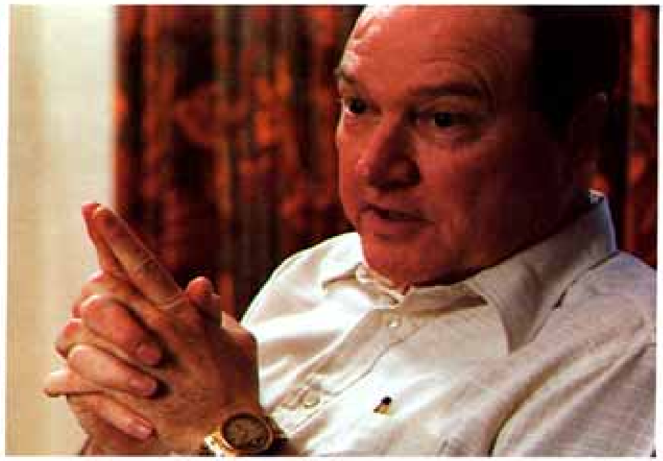
The Retail Home Center Customer
Income



SOURCE: Home Center Institute

Lowe's Board of Directors


McElwee

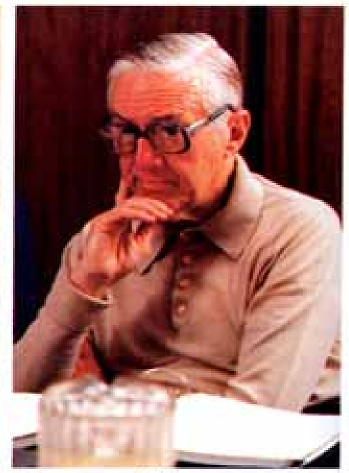

Herring


Strickland


Walker


Schwartz


Kulynych


Cadwgan

Robert L. Strickland, 50, Chairman of the Board since 1978, director since 1961. Member of Compensation Committee of the Board; Executive Vice President 1976-1978; Member Office of the President 1970-1978; Senior Vice President, 1970-1976. Director, Revelstoke Companies, Ltd., (lumber mills, retail building materials and ready-mix concrete plants), Calgary, Alberta, Canada, since 1976. (1)

Gordon E. Cadwgan, 67, Director since 1961. Chairman of Audit Committee and Member of Compensation Committee of the Board, Trustee and Financial Consultant, Tucker, Anthony & R. L. Day, Inc., Boston, Mass., since February, 1979; Director, Leach & Garner Company, Attleboro, Mass.; Vice President, Merrill Lynch, Pierce, Fenner & Smith, Inc., Boston, Mass., 1978-1979; Vice President, White, Weld & Company, Inc., Boston, Mass., 1974-1978.

Robert G. Schwartz, 53, Chairman of Compensation Committee and Member of Audit Committee of the Board, director since 1973. Vice Chairman of the Board and Director, Metropolitan Life Insurance Company, New York, N. Y., since March 1, 1980. Executive Vice President, Metropolitan Life Insurance Company, New York, N. Y., 1979-1980. Senior Vice President, Metropolitan Life Insurance Company 1976-1978. Director, NL Industries, Inc., (petroleum services, chemicals and metals), New York, N.Y., since 1980. Director, Potlatch Corporation, (paper and forest products), San Francisco, Calif., since 1973; Director, Kaiser Cement & Gypsum Corporation, (cement), Oakland, Calif., since 1977.

Leonard G. Herring, 53, President and Chief Executive Officer since 1978, director since 1956. Member Office of the President 1970-1978; Secretary of the Company 1956-1978; Executive Vice President 1976-1978; Senior Vice President 1970-1976. Director, Northwestern Financial Corporation, North Wilkesboro, N. C., since 1969. (1)

Petro Kulynych, 59, Managing Director since 1978, director since 1952. Executive Vice President 1970-1978; Member Office of the President 1970-1978. Director, North Wilkesboro Savings & Loan Association, North Wilkesboro, N. C., since 1974. (1)

John A. Walker, 58, Founding Director since 1981, director since 1961. Managing Director 1978-1980. Executive Vice President 1970-1978; Member Office of the President 1970-1978. Director, Brad Ragan, Inc., (tire manufacturer), Spruce Pine, N. C., since 1971. Trustee, First Carolina Investors, Charlotte, N.C., since 1971.

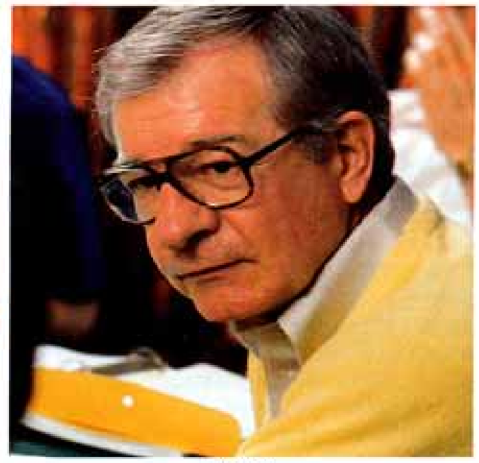
William H. McElwee, Sr., 73, Managing Director and General Counsel since 1981, Senior Vice President and General Counsel 1972-1980, director since 1961. Member of Compensation Committee of the Board. Partner, McElwee, Hall, McElwee, & Cannon (Attorneys-at-Law), North Wilkesboro, N.C. (1)

(1) Also officer.

Lowe's Officers

Griffing

Dupree Burgess



Pardue

Elledge

Lakey

Morrow

Officers

J. Ross Burgess, Jr., 52
Executive Vice President — Merchandising since 1978; Vice President—Lumber and Building Commodities, 1974-1978; Regional Vice President, 1971-1974.

Dwight E. Pardue, Sr., 52
Executive Vice President — Store Operations since 1978; Senior Vice President—Stores, 1976-1978; Regional Vice President, 1970-1976.

Clayton A. Griffing, 40
Senior Vice President — Finance and Chief Financial Officer since 1980, Treasurer since 1981; Vice President of Finance and Chief Financial Officer, Atlantic Steel Co., Atlanta, Ga., 1978-1980; Treasurer and Chief Financial Officer, Atlantic Steel Co., 1976-1978.

Wade L. Dupree, 39
Vice President—Real Estate since 1976.

Richard D. Elledge, 39
Vice President since 1981; Secretary since 1978; Controller since 1973; Assistant Secretary 1978.

Arnold N. Lakey, 44
Vice President — Credit since 1973.

Roderick P. Morrow, 38
Vice President — Administration since 1977; Vice President — Corporate Development, 1976-1977.

General Information

Headquarters
Lowe's Companies, Inc.
Box 1111
North Wilkesboro, N. C. 28656
919-667-3111

General Counsel
McElwee, Hall, McElwee & Cannon
906 B Street Rear
North Wilkesboro, N. C. 28659
919-667-1111

Certified Public Accountants
J. A. Grisette & Co.
Box 759
Lenoir, N. C. 28645
704-754-2401
919-667-1131

Form 10-K
Form 10-K, prepared for and filed with the U. S. Securities and Exchange Commission, is available to shareholders and others interested upon their request to the company, in care of the Investor Relations Department, Box 1111, North Wilkesboro, N. C. 28656.

Common Stock
Lowe's common stock is traded under the symbol of LOW on the New York and Pacific Stock Exchanges.

(Data on Pages 52-53 current with proxy information dated April 24, 1981)

What You Should Know About Being a Lowe's Shareholder

Introduction: Whether you are a new owner of Lowe's Companies, Inc. common stock, or a shareholder of long standing, we thought you might have a few questions about stock ownership itself. For example, how can you transfer stock if you should want to change the registration on your stock certificates? What should you know about the certificate itself? What should you do if a certificate is lost or stolen? On the next two pages we will try to answer these and several other questions of concern to all of you.

Stock Transfer: Before we tell you how you can transfer your stock, it might be helpful to know a little bit about the logistics of stock transfer, and the people involved in this important behind-the-scenes function. Stock transfer is the process through which changes in the ownership of a company's stock are officially registered in the company's shareholder records, and certified through an exchange of stock certificates. All of the outstanding shares of a company's stock are represented by numbered certificates, and all of the numbered certificates are registered in the name of, and issued to, a shareholder or a designated representative of a shareholder. Since the number of shares represented by certificates must always equal the number of shares outstanding, each registered stock certificate must be accounted for and correspond to a shareholder name in the company's records. Any change in the registration of a certificate must be accompanied by a comparable change in the company's shareholder records, and by the cancellation of the old stock certificate and issuance of a new one.

The Transfer Agent has primary responsibility for the efficient transfer of a company's stock including maintenance of shareholder records and the cancellation and issuance of stock certificates. The transfer agent can also issue the company's dividends and provide shareholder mailing lists for a variety of corporate communications. A company may be its own transfer agent or, as is more often the case, a bank or trust company is designated to serve in this capacity. For greater convenience and more expeditious stock transfer service, Lowe's has appointed two transfer agents: Wachovia Bank & Trust Company, N.A., in Winston-Salem, North Carolina; and Morgan Guaranty Trust Company of New York in New York City. Wachovia is Lowe's principal transfer agent and, as such, also maintains Lowe's official shareholder records and acts as Lowe's Dividend Disbursing Agent.

The Registrar verifies that when stock is transferred, the new number of shares issued is equal to the number of shares canceled. This double checking of the debit and credit of stock transfers is extra protection for shareholders and for the company, and this service is also typically performed by a bank or trust company. Lowe's also has two registrars. The registrar for Winston-Salem transfers is the Northwestern Bank, and for New York City transfers, the Chase Manhattan Bank.

When You Can Transfer Stock: As we explained, stock transfer is required whenever the registration of a stock certificate is changed. The change in registration most often occurs when shares are sold by one stockholder and purchased by another. However, in most cases, you will need to contact a broker for the purchase or sale of stock. Stock transfer is also required when a gift of stock is made from a shareowner's personal holding, or in the event that a stockholder wishes to have his shares re-registered, with his name in a different form. The latter could include name changes resulting from marriage, or consolidation of several certificates of the same stock on which there are slight variations in the way the shareholder's name is registered. A stockholder may also wish to co-register his shares with another person and this, too, would necessitate stock transfer. In all of these instances, you may initiate transfer yourself, and now we are ready to tell you how to go about it.

How You Can Transfer Stock: If, at some point, you would like to change the registration on part or all of your share holding, you can do so directly by sending the certificates to be transferred via registered or certified mail, along with a letter of instructions, to either of Lowe's transfer agents. The certificates have to be endorsed by you as they are registered which means that you must sign your name exactly as it appears on the face of the certificate. To endorse the certificate, you may sign where indicated on the reverse side of the certificate. Your signature must be "guaranteed" in order for certificates to be accepted for transfer. For your added protection, it is recommended that you fill in all of the information requested on the reverse side of the certificate, particularly the blank space designating an "Attorney," where you may insert the name of whichever of Lowe's transfer agents is performing the transfer for you. If you would rather not send an endorsed stock certificate through the mail, you may send in a separate envelope a "stock power" which can be obtained from a bank or broker. The stock power must be filled out completely and endorsed, again, with your signature guaranteed. If you decide to use the stock power, it is still recommended that you send the unsigned stock certificate being transferred via registered or certified mail, and it would be helpful to include a note indicating that a stock power is being forwarded separately.

If you wish to make a gift of stock and your shares are registered in your name, you follow the same procedure. However, please be sure to include in your letter of instructions, the number of shares to be given, along with the full name, address, and if possible, the Social Security number of the recipient. If the number of shares being given or transferred is less than the number of shares sent to the transfer agent, new certificates for the balance will be issued and returned to you.

All transfers should be sent in care of the Stock Transfer Department to whichever of Lowe's transfer agents you choose, and you will find the addresses for both of Lowe's transfer agents on Page 76.

"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 Department, 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 IRS 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 1, 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.

Shareholder Census and Survey

Stockholder Composition: The number of Lowe's shareholders increased again this year, to 5,305 from 5,147 a year ago, an increase of 3.1%. This is the sixth consecutive year of increase in Lowe's shareholder ranks. Our shareholder census by state, as of January 31, 1981, is presented in Table A. There are 4,400 shareholders, representing 83% of the total number of shareholders in the 19 states where Lowe's has stores. These shareholders, who include many customers, employees and suppliers—people who know us best—represent 2,378,237 shares, 18% of the total number of shares. Lowe's shareholders live in every state except Wyoming, as well as the District of Columbia, Canada and several other foreign countries. It is interesting to note that during 1980 the number of foreign-held shares increased nearly three-fold over 1979 levels.

Lowe's Profit-Sharing Trust and the Lowe's Employee Stock Ownership Trust combined own 3,118,455 shares or 24% of the outstanding stock. During the past year the Profit-Sharing Trust reduced its holdings by 6% from 2,103,942 shares in 1979 to 1,968,116 shares in 1980. The Employee Stock Ownership Trust, which has replaced the Profit-Sharing Trust, increased its stock ownership by 97% from 585,156 shares to 1,150,339 shares. These two groups together representing Lowe's employee's ownership are prime proof of the vested interest employees have for the continued growth and profitability of the company.

Shareholder's Survey: A shareholder's survey for 1981 is included in this Annual Report. A few minutes of your time to complete it will be greatly appreciated just as we have appreciated your participation in previous surveys.

During Fiscal 1980, a total of 441 surveys were returned by Annual Report recipients (a 25% decline from 1979 levels). The number of respondents indicating that they had become interested in investing in Lowe's only during the past year doubled from 7% to 14%. Lowe's Annual Reports (21%), broker information (18%), and Lowe's employees (21%) were the most often mentioned methods by which respondents obtained their initial awareness of Lowe's as an investment.

Lowe's shareholders indicated that their primary objective for holding Lowe's stock during 1980 was an anticipation of stock price recovery when interest rates subside (22%), followed by those persons mentioning a long-term profit on their original investment (20%). Potential stockholders indicated that the primary reason for considering purchase of Lowe's stock was capital appreciation (45%) while 38% indicated that both capital appreciation and dividend income was their primary investment objective. Respondents continued to believe that the growth rate of dividends is the most important dividend criterion (75% agreeing).

Overall, the Annual Report continues to be very positively received with 76% of all respondents rating the 1979 Annual Report as excellent. Fifty-five percent reported reading every page or almost every page with the letter to shareholders (14%) and the performance review (13%) being the best liked separate sections of the report. It is interesting to note that 50% of the respondents indicated they liked all of the report equally and could not single out a section they liked more than the rest.

This feedback continues to guide Lowe's as plans for future shareholder communications are made and many of last year's suggestions have been included in this year's report.

Shareholder Census — A

State	Holders	Shares
Alabama*	106	5,791
Alaska	3	331
Arizona	17	2,822
Arkansas*	4	273
California	70	196,064
Colorado	7	2,166
Connecticut	61	290,312
Delaware*	36	9,810
District of Columbia	20	15,897
Florida*	133	91,554
Georgia*	185	60,713
Hawaii	1	300
Idaho	3	705
Illinois*	74	477,047
Indiana*	38	16,190
Iowa	5	112
Kansas	10	35,877
Kentucky*	68	21,573
Louisiana*	58	3,700
Maine	11	2,993
Maryland*	110	30,738
Massachusetts	96	133,444
Michigan	46	36,762
Minnesota	24	10,330
Mississippi*	53	6,387
Missouri	33	23,228
Montana	4	183
Nebraska	8	14,968
Nevada	4	316
New Hampshire	9	3,970
New Jersey	93	18,837
New Mexico	1	408
New York	202	6,561,993
North Carolina*	2,345	1,014,634
North Dakota	3	61
Ohio*	114	76,389
Oklahoma	4	8,138
Oregon	9	1,015
Pennsylvania*	100	23,215
Rhode Island	88	86,908
South Carolina*	257	60,931
South Dakota	1	1
Tennessee*	179	100,390
Texas*	48	147,512
Utah	1	30
Vermont	4	18,033
Virginia*	423	217,639
Washington	21	9,258
West Virginia*	69	13,751
Wisconsin	11	1,837
Wyoming	0	—
Canada	18	23,256
Foreign	15	24,879
Employees in Profit-Sharing Trust**	2,035	1,968,116
Employees in Stock Ownership Trust**	6,100	1,150,339
Total	11,403	13,022,126

*Indicates state with Lowe's store

**In computing total shareholders of record, the two trusts are counted as one shareholder each.

1980 Survey of Shareholders — B

1. Gender of Respondent:

Male	90%
Female	10%

2. Age Group Breakdown:

Under 25	3%
25-34	16%
35-44	20%
45-54	22%
55-64	22%
Over 65	15%
No Response	2%

3. First Interest in Investing in Lowe's Occurred Within Past:

Year	14%
1-2 Years	10%
2-5 Years	24%
Over 5 Years	24%
Over 10 Years	27%
No Response	1%

4. First Awareness of Lowe's as a Result of:

Broker	18%
Lowe's Employee	21%
Lowe's Shareholder	5%
Lowe's Annual Reports	21%
Newspaper or Magazine	9%
Investment Publication Article	10%
Other	14%
No Response	2%

5. Investment Objectives:

Capital Appreciation	45%
Dividend Income	6%
Some of Both	38%
No Opinion	11%

6. As a Lowe's shareholder, what is your primary investment objective by holding Lowe's stock now?

Long-term profit on my original investment	20%
When interest rates subside, Lowe's price may recover	22%
Dividends on original investment are satisfactory	2%
A loss on my investment and am waiting a recovery	15%
Other	11%
No Response	30%

7. From which of the following groups does your interest in Lowe's stem?

Shareholder	43%
Security Analyst	13%
Financial Advisor	12%
Stockbroker	9%
Trade Media	2%
Financial Media	2%
Financial Institution	3%
Lowe's Employee	6%
Supplier	3%
Other	7%

8. Which section of our January 31, 1980 Annual Report did you like best?

All	50%
Letter to Shareholders	14%
Performance Review	13%
21-Year Financial Review	6%
Feature Stories	4%
Market Research	4%
Financial Report	3%
Other	3%
Shareholder Information	2%
Upscale Living	1%

9. How much of the January 31, 1980 Annual Report did you read?

Cover to Cover	35%
Almost every page	20%
Most of it	19%
Half	8%
Only the highlights	13%
Gave it a quick glance	3%
No Response	2%

10. Overall Judgment of the Report:

Excellent	76%
Good	20%
Average	2%
Marginal	—
No Response	2%

Report of Lowe's Management

New regulations of the U. S. Securities and Exchange Commission require that a majority of a company's Board of Directors sign the company's Form 10-K, which is an annual report to the commission.

In keeping with the spirit of that requirement, which signifies that those directors have reviewed the material, and because Form 10-K is largely made up of information which is incorporated by reference from this document, the Board of Directors of Lowe's Companies, Inc., also signs this financial portion of the Annual Report to Shareholders.

Robert L. Strickland

Robert L. Strickland
Chairman of the Board of Directors
and Director

Leonard G. Herring
President, Chief Executive Officer
and Director

Petro Kulynych
Managing Director
and Director

John A. Walker
Director

Clayton A. Griffing
Senior Vice President — Finance, Treasurer
and Chief Financial Officer

W. H. McElwee

William H. McElwee, Sr.
Senior Vice President, General Counsel
and Director

Gordon E. Cadwgan
Director
and Chairman, Audit Committee
of the Board of Directors

Richard D. Elledge

Richard D. Elledge
Vice President, Secretary, Controller
and Chief Accounting Officer

Robert G. Schwartz
Director
and Member, Audit Committee
of the Board of Directors

Report of Independent Certified Public Accountants

J.A.Grisette & Co. CERTIFIED PUBLIC ACCOUNTANTS

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

We have examined the consolidated balance sheets of Lowe's Companies, Inc. and subsidiaries as of January 31, 1981, 1980, and 1979, and the related consolidated statements of current and retained earnings and changes in financial position for the fiscal years then ended. 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 consolidated financial statements referred to above present fairly the consolidated financial position of Lowe's Companies, Inc. and subsidiaries as of January 31, 1981, 1980, and 1979, and the consolidated results of their operations and changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

J A Grisette & Co

Lenoir, North Carolina
February 25, 1981

Management Analysis: Lowe's Financial Strategies

Chart A presents graphically the sales growth trend at Lowe's, which has averaged 14% per year from 1976 through 1980. This growth rate is lower than the longer range growth rates shown in line 5, Page 72, due to the year's economic circumstances adversely affecting the rate of growth for 1980. However, the Company's long-term growth rates are rather persistent despite several cycles in the economy, which is attributable to the marketplace acceptance of Lowe's merchandise and services, and to the Company's continued geographic expansion. It is due also in part to inflation, but since the inflation rate for our merchandise last year was less than half that registered by the Consumer Price Index, our sales growth represents real unit gains.

Chart B delineates net earnings as a percentage of sales during the last five 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 for 1978, 1979, and 1980 reflect the change to LIFO inventory accounting. A better, restated, historical comparison is presented in line 19, Page 72.

Management's policy of earnings application is portrayed in Chart C, and a definite trend is 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 changing in recent years, to align our dividend growth rate more closely with our earnings growth rate, and with our cash flow growth rate as shown in line 14, Page 72.

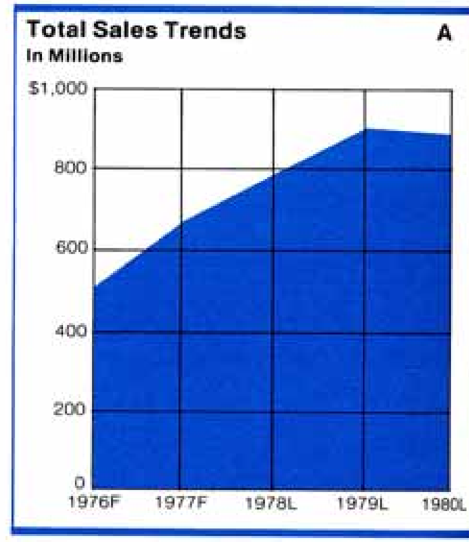
Let us now consider Balance Sheet (Page 61) Strategies and Management. Two major areas for financial policy, one for each side of the Balance Sheet, have guided Lowe's growth. First, on the Assets side, we concern ourselves with the structural balance of the various Asset components which contribute to our profits and growth. Charts A and B on Page 60 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 1976 through 1980, Inventory and Receivables have been maintained at an average of two-thirds 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 72), a major factor in our consistently high rate of Return on Shareholders' Equity.

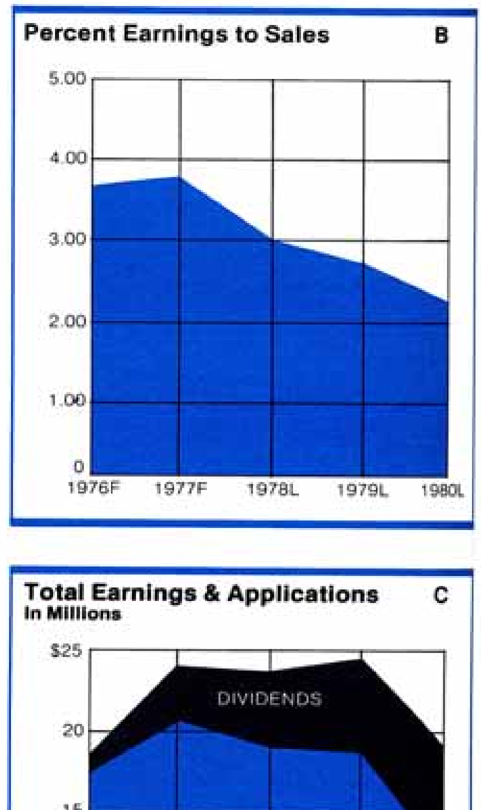
Inventory is the single most important Asset to a company like Lowe's. Our fundamental mission is the retail marketing of hard goods, not retail financing and not real estate investment. Inventory is the raw material of profitability, and it rightly maintains its major proportion of Assets.

Lowe's Sales to Inventory ratio — Total Sales divided by Average Inventory at cost— was 7.3 times in 1980. This ratio, as well as the proportions shown in Charts A and B, were affected by the LIFO accounting change discussed earlier.

Accounts Receivable occupy the next largest portion of total Assets and are an essential marketing service to our professional customers. The Accounts Receivable balance is comprised almost entirely of receivables from sales to our professional customers and their average tenure on the ledgers varies seasonally. Our retail customer tends either to pay in cash or to use our private-label credit card or one of the nationally known credit cards, with the resulting receivables being sold on a non-recourse basis. These credit card sales are therefore like cash sales to Lowe's—from the dual standpoints of risk and cash flow — and do not represent an Accounts Receivable.

Our Receivables increased $1.7 million, but declined about ½ of 1% of total Assets. The $68 million on January 31, 1981 was equal to 60% of sales to professional buyers during the preceding 90 days, compared to 63% one year ago, and 66% two years ago.





F:FIFO Accounting
L:LIFO Accounting

Consolidated Statements of Current and Retained Earnings

LOWE'S COMPANIES, INC. AND SUBSIDIARIES
(In thousands, except per share data)

	Year Ended January 31, 1981		Year Ended January 31, 1980		Year Ended January 31, 1979	
	Fiscal 1980	% of Sales	**Fiscal 1979**	% of Sales	**Fiscal 1978**	% of Sales
Current earnings:						
Net sales	$883,614	100.0	$904,651	100.0	$793,125	100.0
Cost of sales, buying, warehousing, and occupancy	730,199	82.6	741,891	82.0	647,178	81.6
Gross profit	153,415	17.4	162,760	18.0	145,947	18.4
Expenses:						
Selling, general, and administrative	89,558	10.1	85,860	9.5	74,804	9.4
Depreciation	10,320	1.2	10,064	1.1	8,714	1.1
Employee retirement benefits (Note 7)	10,528	1.2	10,226	1.1	7,488	1.0
Provision for bad debts (Note 10)	2,529	.3	2,262	.3	3,474	.4
Interest and loan expense (Note 10)	4,203	.5	7,017	.8	5,602	.7
Total expenses	117,138	13.3	115,429	12.8	100,082	12.6
Pre-tax earnings	36,277	4.1	47,331	5.2	45,865	5.8
Provision for income taxes (Note 6)	17,386	2.0	22,376	2.5	22,141	2.8
Net earnings	$ 18,891	2.1	$ 24,955	2.7	$ 23,724	3.0
Earnings per share	$ 1.45		$ 1.92		$ 1.82	
Dividends per share	$ .60		$ .50		$ .40	
Shares outstanding	13,022		13,022		13,022	
Retained earnings:						
Beginning of year	$147,322		$128,878		$110,363	
Additions:						
Net earnings	18,891		24,955		23,724	
Less cash dividends	7,813		6,511		5,209	
Net additions	11,078		18,444		18,515	
End of year	$158,400		$147,322		$128,878	

See accompanying notes to consolidated financial statements.

Management Analysis: Lowe's Financial Strategies

This performance and the decline in allowance for doubtful accounts from 5.3% of gross total receivables to 4.9% this year reflects an excellent job by our Credit Management, a truly superior department, year after year.

Fixed Assets did not change in percent of total Assets this year, due to a slowing of store expansion. Line 28 on Page 72 presents long-term trends.

All Other Assets declined, to 5% of total, due partly to the decrease in the level of cash from its high point at the end of Fiscal 1979.

The second major financial policy strategy 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. Charts B and C show the proportions and trends of these major Balance Sheet elements for the last five years. The change to LIFO accounting affects these charts, and 1976 and 1977 are comparable, but 1978 through 1980 are only really comparable to each other. Page 72 presents a historical balance sheet comparison.

Let's discuss Equity first. Since it was 56% to total Liabilities and Equity on January 31, 1981, it was obviously financing 56% of total Assets. Equity continues to finance the major percentage of total Assets, and very consistently so in the five years shown. Still, Equity cannot finance the total Assets required to maximize Lowe's operations and opportunities. Besides shareholders' money, other peoples' 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 72-74.

As shown on Pages 73 and 74, prior to 1973, Accounts Payable were 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, depending upon the yearly and seasonal patterns in the merchandise mix. The switch to a January 31 fiscal year close de-emphasized Payables' proportion of the year end Balance Sheet.

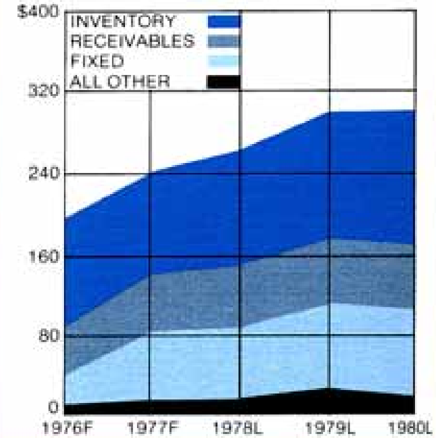
With the knowledge that Long-Term Debt was financing 26% of total Assets at the end of Fiscal 1973, fluctuating percentages in Chart B need explaining. These changes in percent of total have arisen from changes in our store expansion policy, and recently, the soaring cost of credit. As perspective, at 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, Fixed Assets and Long-Term Debt declined as a percent of the total. In the past three years, we began again to build and to own the major portion of our new store facilities. These are normally financed over a 15-year period, through long-term borrowings.

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 Income Taxes Payable and Employee Retirement Benefits, and were financing 10% 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



	1976F	1977F	1978L	1979L	1980L
Leverage Factor	1.92	1.98	1.92	1.89	1.77

Balance Sheet Trends B

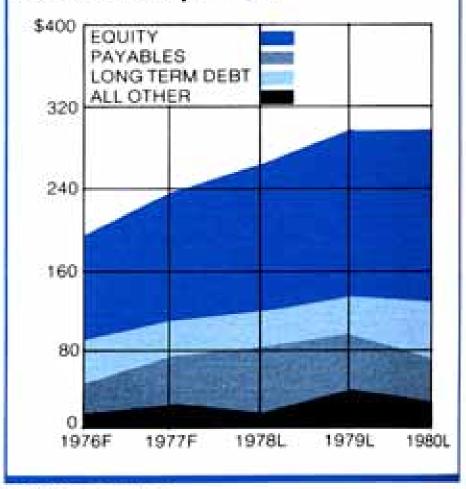
% of Total*

	1976F	1977F	1978L	1979L	1980L
Inventory:	47%	43%	41%	39%	41%
Receivables:	24%	25%	25%	22%	23%
Fixed Assets:	28%	27%	30%	30%	30%
All Other:	1%	5%	4%	9%	6%
Totals:	100%	100%	100%	100%	100%
Equity:	52%	51%	52%	53%	56%
Payables:	12%	16%	17%	15%	17%
Debt:	22%	21%	24%	19%	17%
All Other:	14%	12%	7%	13%	10%
Totals:	100%	100%	100%	100%	100%

*Totals Rounded

	1976F	1977F	1978L	1979L	1980L
Equity ÷ Debt Ratio	2.37	2.38	2.17	2.84	3.28

Equity and Liabilities Trends & Composition C



F:FIFO Accounting
L:LIFO Accounting

Consolidated Balance Sheets

LOWE'S COMPANIES, INC. AND SUBSIDIARIES
(Thousands of dollars)

	January 31, 1981		January 31, 1980		January 31, 1979	
	Fiscal 1980	% of Total	**Fiscal 1979**	% of Total	**Fiscal 1978**	% of Total
ASSETS						
Current assets:						
Cash	$ 8,567	2.8	$ 22,959	7.7	$ 9,362	3.5
Short-term investments	7,000	2.3	—	—	—	—
Accounts receivable less allowance for doubtful accounts (Note 10)	68,172	22.6	66,442	22.2	66,836	24.9
Merchandise inventories (Note 2)	125,104	41.5	118,511	39.5	111,248	41.2
Refundable income taxes	—	—	—	—	877	.3
Other current assets	913	.3	3,001	1.0	905	.3
Total current assets	209,756	69.5	210,913	70.4	189,228	70.2
Property, improvements, and equipment less accumulated depreciation (Notes 3 and 4)	91,399	30.3	88,695	29.6	80,096	29.7
Other assets	573	.2	291	—	371	.1
Total assets	$301,728	100.0	$299,899	100.0	$269,695	100.0
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Current maturities of long-term debt (Note 4)	$ 4,157	1.4	$ 4,093	1.4	$ 2,439	1.0
Accounts payable	52,003	17.2	45,567	15.2	44,833	16.6
Employee retirement benefits payable (Note 7)	10,472	3.5	9,785	3.3	6,115	2.3
Accrued salaries and wages	4,019	1.3	4,206	1.4	4,667	1.7
Other current liabilities	8,546	2.8	5,912	1.9	6,027	2.2
Income taxes payable (Note 6)	427	.2	15,127	5.0	—	—
Total current liabilities	79,624	26.4	84,690	28.2	64,081	23.8
Long-term debt, excluding current maturities (Note 4)	51,929	17.2	56,112	18.7	64,961	24.0
Total liabilities	131,553	43.6	140,802	46.9	129,042	47.8
Commitments, contingencies, and litigation (Notes 8 and 9)						
Shareholders' equity (Note 4):						
Common stock — $.50 par value, authorized 20,000,000 shares, issued and outstanding 13,022,126	6,511	2.2	6,511	2.2	6,511	2.4
Capital in excess of par value	5,264	1.7	5,264	1.8	5,264	2.0
Retained earnings	158,400	52.5	147,322	49.1	128,878	47.8
Total shareholders' equity	170,175	56.4	159,097	53.1	140,653	52.2
Total liabilities and shareholders' equity	$301,728	100.0	$299,899	100.0	$269,695	100.0

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

LOWE'S COMPANIES, INC. AND SUBSIDIARIES
Fiscal years ended January 31, 1981, 1980, and 1979
(Thousands of dollars)

	Fiscal 1980	Fiscal 1979	Fiscal 1978
Funds provided:			
Net earnings	$ 18,891	$24,955	$23,724
Charge not requiring funds— depreciation	10,320	10,064	8,714
Funds from operations	29,211	35,019	32,438
Long-term debt borrowings	—	10,553	16,625
Disposals of property	561	857	1,052
Other sources	—	80	81
Total funds provided	29,772	46,509	50,196
Funds applied:			
Dividends paid	7,813	6,511	5,209
Properties acquired	13,585	19,520	25,429
Current maturities and repayment of long-term debt	4,183	19,402	2,975
Other uses	282	—	—
Total funds applied	25,863	45,433	33,613
Increase in working capital	$ 3,909	$ 1,076	$16,583
Changes in components of working capital:			
Current assets:			
Cash	$(14,392)	$13,597	$ (1,585)
Short-term investments	7,000	—	—
Accounts receivable	1,730	(394)	5,368
Merchandise inventories	6,593	7,263	8,330
Refundable income taxes	—	(877)	877
Other current assets	(2,088)	2,096	(402)
Increase (decrease) in current assets	(1,157)	21,685	12,588
Current liabilities:			
Notes payable	—	—	(5,000)
Current maturities of long-term debt	64	1,654	569
Accounts payable	6,436	734	5,885
Employee retirement benefits payable	687	3,670	1,063
Accrued salaries and wages	(187)	(461)	1,443
Other current liabilities	2,634	(115)	798
Income taxes payable	(14,700)	15,127	(8,753)
Increase (decrease) in current liabilities	(5,066)	20,609	(3,995)
Increase in working capital	$ 3,909	$ 1,076	$16,583

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

LOWE'S COMPANIES, INC. AND SUBSIDIARIES
Years ended January 31, 1981, 1980, and 1979

Note 1—Summary of Significant Accounting Policies:

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

PRINCIPLES OF CONSOLIDATION—The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All material intercompany accounts and transactions have been eliminated.

ACCOUNTS RECEIVABLE—Allowance for doubtful accounts is based on historical experience coupled with a review of existing receivables. Installment receivables arising from consumer sales are sold, without recourse, to outside finance companies.

MERCHANDISE INVENTORIES—Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method.

PROPERTY, IMPROVEMENTS, AND EQUIPMENT—Property, improvements, and equipment are recorded 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. Upon disposal, cost of properties and related accumulated depreciation are removed from the accounts. Gains and losses on items disposed of are reflected in earnings.

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

LEASES—Assets under capital leases are amortized in accordance with the Company's normal depreciation policy for owned assets. The charge to earnings resulting from amortization of these assets is included in depreciation expense in the consolidated financial statements (Note 8).

INCOME TAXES—The Company reports earnings substantially on the same basis for tax and financial purposes. Investment tax credits are accounted for as a reduction of income tax expense in the year in which the credit is utilized.

EMPLOYEE RETIREMENT PLANS—Since 1957 the Company has maintained retirement plans for its employees as described in Note 7. The plans provide for employer contributions only and are funded annually.

OTHER ASSETS—Intangible assets are amortized over their estimated useful lives on the straight-line method.

SERVICE CHARGES—Service charges arising from certain classes of customer accounts are treated as a reduction of selling, general, and administrative expenses in the statements of earnings.

START-UP EXPENSES—Expenses associated with the opening of new stores and service facilities are charged to earnings as incurred.

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

Note 2—Merchandise Inventories:

Inventories used in computing cost of goods sold were as follows:

	(Thousands of dollars)
January 31, 1978—FIFO	$102,918
January 31, 1979—LIFO	111,248
January 31, 1980—LIFO	118,511
January 31, 1981—LIFO	125,104

If the FIFO method had been used, inventories would have been $22.636 million, $15.950 million, and $8.466 million higher at January 31, 1981, 1980, and 1979, respectively.

Note 3—Properties and Accumulated Depreciation:

Properties are summarized below by major classes with estimated lives in years as follows: buildings, 20 to 30; store and office equipment, 5 to 10; transportation equipment, 3 to 7; and leasehold improvements, generally over the remaining life of the lease.

	January 31,		
	1981	1980	1979
	(Thousands of dollars)		
Cost			
Land	$ 14,159	$ 12,569	$ 11,212
Buildings	62,603	57,014	48,871
Store and office equipment	24,545	22,075	18,612
Transportation equipment	25,859	25,210	21,674
Leasehold improvements	14,494	14,029	13,236
Total	141,660	130,897	113,605
Accumulated Depreciation	50,261	42,202	33,509
Net Properties	$ 91,399	$ 88,695	$ 80,096

Note 4—Long-Term Debt:

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

	January 31,		
	1981	1980	1979
	(Thousands of dollars)		
Insurance company loans:			
Unsecured notes maturing annually, 1980 through 1992, interest rates of 8 1/4%	$19,500	$21,000	$21,000
Secured notes maturing quarterly through 1993, interest rates of 5 5/8% to 9%	30,997	33,103	35,061
Bank loans:			
Unsecured note maturing in 1980, interest rate at 1/4% above prime	—	—	5,000
Secured notes maturing quarterly through 1994, interest rates of 7% to prime plus 2%	3,001	3,351	3,155
Mortgage company loan:			
Secured note maturing monthly through 1998, interest rate of 9 5/8%	—	—	299
Other loans:			
Unsecured notes maturing 1982, interest rates of 8%	35	55	50
Obligations under capital leases:			
Maturing serially through 1991	1,390	1,495	1,600
Maturing monthly through 1994	1,163	1,201	1,235
Total long-term debt	56,086	60,205	67,400
Less current maturities	4,157	4,093	2,439
Long-term debt, less current maturities	$51,929	$56,112	$64,961

Debt maturities (in millions) for the next five fiscal years exclusive of obligations under capital leases (see Note 8), are as follows: 1981—$4.000; 1982—$4.203; 1983—$4.998; 1984—$5.170; 1985—$5.234.

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, approximately $32.5 million of consolidated retained earnings are available for payment of dividends.

Certain store, general office, and warehouse properties with a depreciated cost of $32 million have been pledged as collateral for secured insurance company loans. Store properties having a depreciated cost of $4 million are pledged as collateral for secured bank loans.

Under terms of a revolving credit agreement with a bank, the Company may borrow up to $10 million with interest at 1/4% above prime. Such borrowings are unsecured with interest payable quarterly. There are no compensating balance or commitment fee arrangements with regard to the revolving credit agreement. There were no borrowings outstanding under this agreement at January 31, 1981 and 1980, and $5 million at January 31, 1979. Terms of the insurance company loan agreement restrict maturities of borrowings under this agreement to not more than three years after date incurred.

Note 5—Short-Term Borrowings and Line of Credit:

The Company has a line of credit agreement with a bank which provides for short-term unsecured borrowings up to $30 million at prime, none of which was used at January 31, 1981, 1980, or 1979. There are no compensating balance or commitment fee arrangements with regard to the agreement.

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

	Year ended January 31,		
	1981	1980	1979
	(Thousands of dollars)		
Maximum amount outstanding at any month-end	$15,000	$25,000	$25,000
Average amount outstanding (based on weighted daily average)	$ 1,192	$ 7,408	$ 8,285
Weighted average interest rate (ratio of actual interest expense to average amount outstanding)	18.9%	11.6%	8.5%

Note 6—Income Taxes:

There are no material timing differences in reporting revenues and expenses for financial and income tax purposes, therefore, substantially all income tax expense is currently payable. Actual provisions for income tax expense are more than amounts computed by applying applicable federal tax rates to pre-tax earnings. The reasons for these differences are principally that state income taxes and investment tax credits are included in the tax provision, as follows:

	Year ended January 31,					
	1981		1980		1979	
	(Thousands of dollars)					
	Amount	Percent	Amount	Percent	Amount	Percent
Federal tax at statutory rates	$16,688	46.0	$21,772	46.0	$22,015	48.0
State income taxes—net of federal tax benefit	1,149	3.2	1,420	3.0	1,348	2.9
Investment tax credits	(519)	(1.4)	(816)	(1.7)	(1,165)	(2.5)
Other	68	.1	—	—	(57)	(.1)
Provision for income taxes	$17,386	47.9	$22,376	47.3	$22,141	48.3

Note 7—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 eligible compensation for participating employees. Contributions were discontinued effective December 31, 1977. Accounts of members in the plan became fully vested at that time, and the trust remains in effect for the benefit of those members. The trust holds approximately 15% of the outstanding shares of the Company as of January 31, 1981, and is the largest shareholder.

On December 19, 1977, the Board of Directors adopted an Employee Stock Ownership Plan effective 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 trust holds approximately 9% of the outstanding stock of the Company as of January 31, 1981. The amount contributed to the plan is determined annually by the Board of Directors. A contribution of 15% of eligible compensation, as defined, was authorized for the fiscal years ended January 31, 1981, 1980, and 1979.

Provisions for payments to the employee retirement plans amounted to $10.528 million, $10.226 million, and $7.488 million, respectively, for the years ended January 31, 1981, 1980, and 1979.

Note 8—Long-Term Leases:

The following summarizes the Company's store locations at January 31, 1981:

	Leased	Owned	Total
Land only	26		26
Land and buildings	53	135	188
Total store locations	79	135	214

The Company has erected substantially all improvements for the leases involving land only. Four locations are leased from Lowe's Companies Profit-Sharing Plan and Trust.

Generally, all real estate leases expire during the next 10 years. In the normal course of business, it is anticipated that a majority of these leases will be renewed at expiration by Company option or replaced by other properties. Purchase options available for leased properties at 14 of the store locations would approximate $4.1 million if exercised under current provisions of the leases.

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 consolidated financial statements.

	January 31,		
	1981	1980	1979
	(Thousands of dollars)		
Land	$ 67	$ 67	$ 67
Buildings	2,702	2,702	2,702
Store and office equipment	38	47	47
Transportation and other equipment	65	144	144
Total capitalized leases	2,872	2,960	2,960
Less accumulated amortization	868	750	559
Net property under capital leases	$2,004	$2,210	$2,401

The Company also leases certain data processing and communications equipment. Purchase options available under these leases would amount to approximately $604,000 if exercised at the present time.

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

	Operating leases			
Year ended January 31,	Real Estate	Equipment	Capital leases	Total
	(Thousands of dollars)			
1982	$1,840	$ 672	$ 378	$ 2,890
1983	1,428	503	375	2,306
1984	1,059	412	372	1,843
1985	756	37	368	1,161
1986	444	2	364	810
Later years	1,360	—	2,313	3,673
Total minimum lease payments	$6,887	$1,626	4,170	$12,683
Less amount representing interest			1,617	
Present value of minimum lease payments under capital leases			2,553	
Less current maturities			157	
Present value of minimum lease payments, less current maturities			$2,396	

Gross rental expenses charged to earnings are as follows:

	Year ended January 31,		
	1981	1980	1979
	(Thousands of dollars)		
Real estate	$2,141	$1,988	$1,776
Equipment	1,037	830	935
Total	$3,178	$2,818	$2,711

Note 9 — Commitments, Contingencies, and Litigation:

The Company had purchase commitments as of January 31, 1981, of approximately $5.3 million for land, buildings, and construction of store facilities, and $2.6 million for equipment.

The Internal Revenue Service is currently examining income tax returns of the Company and its subsidiaries for the periods ended July 31, 1978, and January 31, 1979. At the date of this report, no assessments have been proposed.

Except items in the normal course of business, the Company has no material litigation pending.

Note 10 — Other Information:

An analysis of the allowance for doubtful accounts is as follows:

Year ended January 31	Balance at beginning of period	Additions charged to costs and expenses	Deductions	Balance at end of period
		(Thousands of dollars)		
1981	$3,717	$2,529	$2,742	$3,504
1980	4,102	2,262	2,647	3,717
1979	4,088	3,474	3,460	4,102

Interest and loan expense is comprised of the following:

	Year ended January 31,		
	1981	1980	1979
	(Thousands of dollars)		
Short-term debt	$ 225	$ 860	$ 707
Long-term debt	5,270	6,138	4,878
Amortization of debt expense	20	19	17
Short-term interest income	(1,312)	—	—
Total	$4,203	$7,017	$5,602

Reportable expenses in excess of 1 percent of sales are as follows:

	Year ended January 31,		
	1981	1980	1979
	(Thousands of dollars)		
Advertising	$14,490	$13,231	$10,598

Management Analysis: Summary of Operations

Results of Operations. In Fiscal 1979, net sales increased 14% from the previous year, less than the Company's historical sales growth rate, as the home building industry began to be affected by record high mortgage interest rates. In that year retail sales grew at a strong 21%. Then from Fiscal 1979 to Fiscal 1980, sales actually showed a slight decline, from $904,651,000 to $883,614,000, as the home building industry and the economy in general remained weak. For further sales anaylses, see tables 1, 2, and 3 on Page 75.

Gross Profit percentage showed a decrease from the previous year in each of the last two years. This trend was caused by several factors. The major factor was the considerable competitive pressure on margins, especially in the winter of 1979-1980, due to the economic climate. Also contributing to the margin decline were 1979's gasoline price increases and the occupancy costs of opening new stores and retrofitting old ones.

The main factor in the Selling, General, and Administrative expense increase for the three-year period is an increase in advertising. This increase was a part of the Company's response to the current downturn in the business cycle, and was one of the factors contributing to the strong retail sales performance of the past two years. The second largest factor was personnel cost. Although the number of employees was held approximately flat except for new stores, the expense increased due to salary raises given existing employees.

The increase in Employee Retirement Benefits is due mainly to salary increases. The unusually large increase shown for Fiscal 1979 was due to comparison with a low figure for 1978, when an accrual adjustment was necessitated by the change of all subsidiary corporations to a common fiscal year-end.

The Provision for Bad Debts increased 12% in Fiscal 1980 due mainly to comparison with an especially low figure for Fiscal 1979. This 1979 total was unusual because of the inception of a special program to aggressively collect previously written-off Bad Debts, and because there was no increased provision for future Bad Debts since Accounts Receivable did not increase. In both of the past two years careful control by credit personnel has kept down the increase in actual write-offs, even in a time of slower economic activity when the opposite might have been expected. In fact, the Bad Debts expense for both Fiscal 1980 and Fiscal 1979 is lower than that for either of the two years preceding.

Interest expense increased from Fiscal 1978 to Fiscal 1979 due to the substantial rise in the prime interest rate and due to a two-year note obtained and repaid within the year. It then decreased dramatically in Fiscal 1980, when the Company kept its investment in Receivables and Inventory down during the unfavorable economic climate and therefore did not need to make use of its normal seasonal short-term borrowing. In fact, short-term investment of excess cash provided substantial income to offset some of the long-term interest expense.

Provision for Income Taxes declined relative to Pre-Tax Earnings between Fiscal 1978 and 1979 due to the decrease in the federal income tax rate. It then increased slightly in Fiscal 1980 due to lower investment tax credit.

Liquidity and Capital Resources. Due to the seasonal nature of the Company's business, Lowe's has established a yearly pattern of short-term borrowing during the winter and spring months, when Inventory and Receivables increase. This debt is normally repaid in the summer and fall, when sales and collections are at their peak. Sufficient lines of credit are maintained to cover this borrowing. Because of the tight control maintained over its levels of Receivables and Inventory, the Company needs to make less use of these lines of credit in a time of slower economic activity. During Fiscal 1980, short-term debt was necessary only briefly, and for the remainder of the year, there was enough excess cash to earn more than $1 million in short-term investment interest.

This year, the Company plans to add approximately 20 new stores and retrofit about 50 existing stores with its new retail-oriented sales floor design (RSVP). The RSVP project will be financed with internally generated funds. New stores are normally financed with 15-year mortgages, but financial management has postponed long-term borrowing for the past two years, awaiting more attractive interest levels, and this policy may be continued if conditions so warrant.

For discussion of the effects of inflation on the Company's financial statements, see the "Supplemental Information on the Effects of Changing Prices," Page 68.

Selected Financial Data

LOWE'S COMPANIES, INC. AND SUBSIDIARIES
(In thousands, except per share data)

Selected Income Statements Data:	Year ended January 31,				Six months ended January 31,		Year ended July 31,	
	1981	1980	1979 (1)	1978 (2)	1978	1977 (2)	1977	1976
Net sales	$883,614	$904,651	$793,125	$661,625	$322,032	$254,765	$594,358	$465,052
Cost of sales, buying, warehousing, and occupancy	730,199	741,891	647,178	528,830	256,349	203,607	476,087	370,058
Gross profit	153,415	162,760	145,947	132,795	65,683	51,158	118,271	94,994
Selling, general, and administrative expenses	89,558	85,860	74,804	61,224	31,938	26,030	55,316	45,386
Depreciation	10,320	10,064	8,714	6,744	3,504	2,972	6,212	4,976
Employee retirement benefits	10,528	10,226	7,488	7,721	4,063	2,718	6,376	4,870
Provision for bad debts	2,529	2,262	3,474	4,116	1,555	1,162	3,723	2,457
Interest and loan expense	4,203	7,017	5,602	4,436	2,082	1,802	4,157	3,010
Total expenses	117,138	115,429	100,082	84,241	43,142	34,684	75,784	60,699
Pre-tax earnings	36,277	47,331	45,865	48,554	22,541	16,474	42,487	34,295
Provision for income taxes:								
State	2,127	2,629	2,593	2,782	1,241	906	2,448	1,959
Federal	15,259	19,747	19,548	21,079	9,806	7,336	18,608	15,025
Total income taxes	17,386	22,376	22,141	23,861	11,047	8,242	21,056	16,984
Net earnings	$ 18,891	$ 24,955	$ 23,724	$ 24,693	$ 11,494	$ 8,232	$ 21,431	$ 17,311
Earnings per common share	$ 1.45	$ 1.92	$ 1.82	$ 1.90	$ .88	$ .63	$ 1.65	$ 1.33
Weighted average shares outstanding	13,022	13,022	13,022	13,022	13,022	13,022	13,022	13,022
Dividends paid per share	$ .60	$ .50	$ .40	$ .30	$ .17	$ .08	$ .21	$ .10
Investment tax credit recognized	$ 519	$ 816	$ 1,165	$ 842	$ 378	$ 138	$ 602	$ 406
Selected Balance Sheets Data:								
Current assets	$209,756	$210,913	$189,228	$176,640			$186,198	$146,435
Current liabilities	79,624	84,690	64,081	68,076			87,709	66,705
Working capital	$130,132	$126,223	$125,147	$108,564			$ 98,489	$ 79,730
Total assets	$301,728	$299,899	$269,695	$241,525			$246,809	$197,741
Long-term debt, including current maturities	$ 56,086	$ 60,205	$ 67,400	$ 53,183			$ 48,023	$ 38,096
Shareholders' equity	$170,175	$159,097	$140,653	$122,138			$112,857	$ 94,371

(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 earnings for the year ended January 31, 1979, by $4.138 million or $.32 per share.
(2) Effective January 31, 1978, the Company changed its fiscal year from July 31 to January 31. The 12-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.

Selected Quarterly Data:		Three months ended			
		April 30	July 31	October 31	January 31
Fiscal 1980	Net sales	$182,830	$246,805	$248,181	$205,798
	Gross profit	$ 31,512	$ 44,275	$ 43,980	$ 33,648
	Net earnings	$ 1,970	$ 7,474	$ 6,976	$ 2,471
	Earnings per share	$ .15	$ .57	$ .54	$ .19
Fiscal 1979	Net sales	$189,089	$267,086	$257,568	$190,908
	Gross profit	$ 35,042	$ 48,970	$ 46,785	$ 31,963
	Net earnings	$ 3,895	$ 9,303	$ 8,432	$ 3,325
	Earnings per share	$ .30	$ .71	$ .65	$ .26
Fiscal 1978	Net sales	$167,340	$227,837	$222,418	$175,530
	Gross profit	$ 32,015	$ 42,055	$ 40,833	$ 31,044
	Net earnings	$ 4,639	$ 8,116	$ 6,801	$ 4,168
	Earnings per share	$ .35	$ .63	$ .52	$ .32

Effects of Changing Prices

Supplemental Information on the Effects of Changing Prices

Statement of earnings adjusted for changing prices:

	Historical dollars	Constant dollars	Current cost dollars
		(Thousands of dollars)	
Net sales	$883,614	$883,614	$883,614
Cost of sales	730,199	730,773	730,773
Gross profit	153,415	152,841	152,841
Expenses:			
Selling, general, and administrative	89,558	89,558	89,558
Depreciation	10,320	13,582	13,606
Employee retirement benefits	10,528	10,528	10,528
Provision for bad debts	2,529	2,529	2,529
Interest and loan expense	4,203	4,203	4,203
Total expenses	117,138	120,400	120,424
Pre-tax earnings	36,277	32,441	32,417
Provision for income taxes	17,386	17,386	17,386
Net earnings	$ 18,891	$ 15,055	$ 15,031
Effective income tax rate	47.9%	53.6%	53.6%

	Constant dollars	Current cost dollars
Other Information:		
Purchasing power gain from holding net monetary liabilities during the year	$ 5,465	$ 5,465
*Increase in specific prices (current costs) of inventories and property, improvements, and equipment held during the year		$ 18,700
Effect of increase in general price level of inventories and property, improvements, and equipment		30,231
Excess of increase in the general price level over increase in specific prices		$ 11,531

*At January 31, 1981, current cost of inventory was $148,115 (historical amount, $125,104) and current cost of property, improvements, and equipment, net of accumulated depreciation, was $135,711 (historical amount, $91,399).

Five-year comparison of selected supplementary financial data adjusted for effects of changing prices.
In average 1980 constant dollars.

	Year ended January 31,				
	1981	1980	1979	1978	1977
	(Dollars in thousands, except per share data)				
Net sales:					
Historical dollars	$883,614	$ 904,651	$ 793,125	$661,625	$519,395
Constant dollars	$883,614	$1,026,365	$1,003,580	$903,311	$756,081
Net earnings:					
Historical dollars	$ 18,891	$ 24,955			
Constant dollars	$ 15,055	$ 25,006			
Current cost dollars	$ 15,031	$ 24,932			
Earnings per share:					
Historical dollars	$ 1.45	$ 1.92			
Constant dollars	$ 1.16	$ 1.92			
Current cost dollars	$ 1.15	$ 1.91			
Net assets (shareholders' equity) at year-end:					
Historical dollars	$170,175	$ 159,097			
Constant dollars	$246,811	$ 239,251			
Current cost dollars	$227,074	$ 227,237			
Purchasing power gain from holding net monetary liabilities during the year	$ 5,465	$ 7,556			
Excess of increase in the general price level over increase in specific prices	$ 11,531	$ 12,472			
Cash dividends declared per common share:					
Historical dollars	$ .60	$ .50	$ .40	$ .30	$ .13
Constant dollars	$ .60	$ .56	$ .50	$ .41	$ .19
Market price per common share at year-end:					
Historical dollars	$ 19.88	$ 17.00	$ 19.38	$ 19.88	$ 24.88
Constant dollars	$ 19.00	$ 18.16	$ 23.58	$ 26.45	$ 35.35
Average Consumer Price Index—Urban (1)	249.1	219.7	196.9	182.5	171.2

(1) Base period, 1967 = 100

Explanatory Notes to Supplemental Information:

BASIS OF PREPARATION—The above supplemental information which sets forth the effects of changing prices on the financial statements is presented as required by Financial Accounting Standards Board (FASB) Statement Number 33, "Financial Reporting and Changing Prices." These disclosures are intended to present two methods of financial reporting giving effect to inflation: (1) the effect of an increase in the general price level (constant dollar) on the purchasing power of the dollar, and (2) specific price changes (current cost) in certain assets used by the Company. Because of the uncertainty as to which method of inflation accounting is most appropriate, the FASB requires certain publicly held companies to disclose supplemental information setting forth both methods of inflation accounting.

The Company believes that the following information is necessary and should be considered and understood by users of the financial statements for a proper evaluation of the data presented.

PARTIAL APPLICATION—The supplemental data includes the effect of both general inflation and specific price changes of inventories, properties, cost of sales, and depreciation expense, and the effect of general inflation on net monetary assets.

NET EARNINGS—The above supplemental statement of earnings presents earnings using three methods of measurement. Such methods are as follows:

1. Historical cost basis—Earnings reported on the historical cost basis of accounting are the same amounts as reported in the primary financial statements.
2. Constant dollar accounting—Earnings reported on the constant dollar method represent income and expenses stated in constant dollars adjusted for general inflation. General inflation has been measured by the average level of the Consumer Price Index-Urban (CPI-U) for the period February 1, 1980, through January 31, 1981. Under this measurement method, historical amounts of depreciation expense have been increased to give effect to the increase in the CPI-U level which has occurred since the date properties were acquired. In addition, cost of sales, under the LIFO method, has been increased to reflect prior year liquidated inventory layers into current year constant dollars. Such increase approximated $574,000. Sales and expenses already reflect approximate average current year constant dollars and, accordingly, are the same as amounts reported in historical financial statements.
3. Current cost accounting—Earnings reported under current cost accounting are intended to give effect to current cost measures of inventories and properties at their current cost as of the balance sheet date; cost of sales is measured at the current cost on the date of sale; and depreciation expense is computed on various indexes as described below. Cost of sales has been determined under the LIFO method to be the same as that for constant dollar accounting.

INCOME TAXES—Income tax expense is the same for constant dollar accounting and current cost accounting as that reported in the historical financial statements. Deduction for additional depreciation expense resulting from the effects of inflation is not allowable for income tax purposes, consequently, taxes are provided at rates in the supplemental statements greater than amounts provided in the historical statements. During periods of inflation and increasing prices, taxes provided in excess of the statutory rates in effect result in a tax on shareholders' equity.

PURCHASING POWER GAIN FROM HOLDING NET MONETARY LIABILITIES DURING THE YEAR—Purchasing power gain results where monetary liabilities exceed monetary assets, because the amount of money necessary to pay such net liabilities is represented by dollars of diminishing purchasing power. Purchasing power gain has been computed on average net monetary liabilities for the year multiplied by the change in the CPI-U for the year. Such gain does not represent earnings nor funds available for dividends.

INCREASE (DECREASE) IN CURRENT COSTS OF INVENTORIES AND PROPERTIES—Increases in specific prices of inventories and properties held during the year are not included in net earnings. Current cost increases in inventories and properties are reduced by the effect of general inflation measured by multiplying the beginning and end of the year current cost balances of inventories and properties by the ratio of the average CPI-U for the year ended January 31, 1981, to the year-end CPI-U for the respective periods. The increase in the general price level in excess of the increase in specific prices consists of the following:

	Inventories	Properties	Total
	(Dollars in thousands)		
Current cost increases:			
Realized	$ 574	$ 3,286	$ 3,860
Unrealized	5,460	9,380	14,840
Total	6,034	12,666	18,700
Less general inflation	15,813	14,418	30,231
Excess of general inflation over current cost increases	($ 9,779)	($ 1,752)	($11,531)

FASB Number 33 does not require a reduction in unrealized current cost increases for income taxes that would become payable if such increases were realized. Based on present state and federal tax rates, approximately $33.1 million of income taxes would be applicable to unrealized current cost increases ($67.3 million at January 31, 1981) of which $7.1 million is applicable to the year ended January 31, 1981.

CURRENT COST MEASUREMENTS—Current cost amounts of inventories were estimated by using FIFO values adjusted for price changes which were reflected in the Company's perpetual inventory records. Current cost of sales was determined using the LIFO method (same method used in historical statements) adjusted for prior year layer liquidation, resulting in an increase in current cost of sales of $574,000.

Current cost of properties was determined by the use of various indexes as follows:

Land—Consumer Price Index—U.S. Department of Labor.

Building and Leasehold Improvements—Composite Construction Cost Index—U.S. Department of Commerce.

Store and Office Equipment—Producer Price Index for Durable Consumer Goods—U.S. Department of Labor.

Transportation Equipment—Commodity Price for Motor Vehicles—Bureau of the Census.

The above indexes were applied to the historical cost of properties and accumulated depreciation to determine current cost amounts and depreciation expense. The depreciation methods, primarily double declining balance, and useful lives are the same as those used in preparing the historical financial statements.

Data reported under current cost measurements is not intended to be a precise measurement of the assets and costs and expenses involved, rather such data is intended to present reasonable approximations of the effects of changing prices. In addition, the amounts of current costs of inventories and properties do not necessarily represent amounts at which the assets could be sold.

Sales Analysis

Sales Analysis By Product Group

1

Thousands of Dollars

	Year Ended							Six Month Interim Periods Ended		
	Jan. 31, 1981		Jan. 31, 1980		Jan. 31, 1979		Jan. 31, 1978	Jan. 31, 1978		Jan. 31, 1977
	% Chg.[1]	Amount	% Chg.[1]	Amount	% Chg.[1]	Amount	Amount	% Chg.[1]	Amount	Amount
1. Structural Lumber	−13%	$166,074	+13%	$190,070	+26%	$168,067	$133,887	+39%	$ 63,699	$ 45,828
2. Building Materials & Hardware	− 2%	407,103	+12%	415,287	+19%	371,778	312,125	+29%	155,153	119,867
3. Plumbing, Electrical, Heating & Cooling	+13%	91,601	+20%	81,110	+13%	67,560	59,946	+21%	27,196	22,508
4. Kitchens & Home Laundry	+15%	56,701	+28%	49,394	+21%	38,659	31,827	+14%	15,618	13,651
5. House, Yard, & Farm Supplies	+ 3%	65,989	+26%	63,987	+21%	50,615	41,801	+17%	17,164	14,679
6. Home Entertainment	− 3%	18,813	+11%	19,408	+21%	17,519	14,494	− 4%	10,107	10,542
7. Mobile Homes	−21%	249	−32%	316	−78%	464	2,135	−51%	630	1,293
8. Special Order Sales	− 9%	77,084	+ 8%	85,079	+20%	78,463	65,410	+23%	32,465	26,397
Totals	− 2%	$883,614	+14%	$904,651	+20%	$793,125	$661,625	+26%	$322,032	$254,765

[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		
	Jan. 31, 1981		Jan. 31, 1980		Jan. 31, 1979		Jan. 31, 1978	Jan. 31, 1978		Jan. 31, 1977
	% Chg.[1]	Amount	% Chg.[1]	Amount	% Chg.[1]	Amount	Amount	% Chg.[1]	Amount	Amount
Professional Buyers	− 9%	$463,839	+ 9%	$511,472	+14%	$468,983	$411,613	+31%	$198,667	$151,083
Retail Customers	+ 7%	419,775	+21%	393,179	+30%	324,142	250,012	+19%	123,365	103,682
Totals	− 2%	$883,614	+14%	$904,651	+20%	$793,125	$661,625	+26%	$322,032	$254,765

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

Sales Analysis By Stores: Established Stores vs. New Stores

3

Thousands of Dollars

	Years Ended				Six Month Interim Periods Ended	
	Jan. 31, 1981	Jan. 31, 1980	Jan. 31, 1979	Jan. 31, 1978	Jan. 31, 1978	Jan. 31, 1977
Number of Stores Open	214*	209*	199*	180*	180*	153
Total Sales	$883,614	$904,651	$793,125	$661,625	$322,032	$254,765
% Change Total Sales	− 2.3%	+14.1%	+19.9%	+27.4%	+26.4%	+26.9%
Number of Established Stores[(1)]	209*	196*	179*	153*	153*	141
Sales of Established Stores	$871,122	$893,656	$777,340	$632,413	$299,830	$244,158
Sales of Same Stores Previous Year	$904,651	$793,125	$661,625	$519,395	$254,765	$200,229
% Change Established Store Sales	− 3.7%	+12.7%	+17.5%	+21.8%	+17.7%	+21.9%
Number of New Stores	6	13	20	27	27	13
Sales of New Stores	$ 12,492	$ 10,995	$ 15,785	$ 29,212	$ 22,022	$ 10,607
% Added by New Store Sales	− 1.4%	+ 2.8%	+ 2.4%	+ 5.6%	+ 8.7%	+ 5.3%

[(1)]Established Stores are stores which have been open more than a year.
*Six stores have been closed: in December 1977, December 1978, May 1979, September 1979, January 1980, and June 1980.

Cost and Earnings Analysis

4

	Years Ended							Six Month Interim Periods Ended		
	% Chg.[1]	% of Total[2] Jan. 31, 1981	% Chg.[1]	% of Total[2] Jan. 31, 1980	% 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
Net Sales	− 2%	100.00%	+14%	100.00%	+20%	100.00%	100.00%	+26%	100.00%	100.00%
Cost of Sales[3]	− 2%	82.64%	+15%	82.01%	+22%	81.60%	79.93%	+26%	79.60%	79.92%
Gross Profit	− 6%	17.36%	+12%	17.99%	+10%	18.40%	20.07%	+28%	20.40%	20.08%
Expenses:										
S,G, & A	+ 4%	10.13%	+15%	9.49%	+22%	9.43%	9.25%	+23%	9.92%	10.22%
Depreciation	+ 3%	1.17%	+16%	1.11%	+29%	1.10%	1.02%	+18%	1.09%	1.16%
Employee Retirement Benefits	+ 3%	1.19%	+37%	1.13%	− 3%	.94%	1.17%	+50%	1.26%	1.07%
Provision for Bad Debts	+12%	.29%	−35%	.25%	−16%	.44%	.62%	+34%	.48%	.45%
Interest and Loan Expense[4]	−40%	.47%	+25%	.78%	+26%	.71%	.67%	+16%	.65%	.71%
Total Expenses	+ 1%	13.25%	+15%	12.76%	+19%	12.62%	12.73%	+24%	13.40%	13.61%
Pre-Tax Earnings	−23%	4.11%	+ 3%	5.23%	− 6%	5.78%	7.34%	+37%	7.00%	6.47%
Taxes (total)[5]	−22%	47.93%	+ 1%	47.27%	− 7%	48.27%	49.14%	+34%	49.01%	50.03%
Net Earnings	−24%	2.14%	+ 5%	2.76%	− 4%	2.99%	3.73%	+40%	3.57%	3.23%

[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 earnings.

21-Year Review

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

		20 Year Compound Growth Rates 1960-1980 (1)	10 Year Compound Growth Rates 1970-1980 (1)	1980 (2)	1979 (2)	1978 (2)	1977
	Stores and People						
1	Number of Stores	13.8%	12.2%	214	209	199	180
2	Number of Employees	14.7%	12.9%	5,950	5,804	5,809	5,123
3	Customers Served (Thousands)	15.6%	14.6%	11,376	11,024	10,013	8,817
4	Average Customer Purchase			$ 77.67	$ 82.02	$ 79.20	$ 75.04
	Comparative Income Statement (Thousands)						
5	Total Sales	17.8%	20.2%	$883,614	$904,651	$793,125	$661,625
6	Pre-Tax Earnings	18.3%	15.0%	$ 42,964	$ 54,815	$ 54,331	$ 48,554
7	Taxes on Income	18.5%	14.3%	$ 20,679	$ 26,043	$ 26,469	$ 23,861
8	Net Earnings	18.2%	15.6%	$ 22,285	$ 28,772	$ 27,862	$ 24,693
9	Cash Flow (3)	19.4%	17.3%	$ 32,605	$ 38,836	$ 36,576	$ 31,437
10	Cash Dividends Paid (1)	24.9%	23.6%	$ 7,813	$ 6,511	$ 5,209	$ 3,907
11	Earnings, Minus Dividends, Reinvested	15.8%	13.0%	$ 14,472	$ 22,261	$ 22,653	$ 20,786
	Dollars Per Share (Nearest Cent) (4)						
12	Sales	17.3%	19.8%	$ 67.85	$ 69.47	$ 60.91	$ 50.81
13	Earnings	17.8%	15.1%	$ 1.71	$ 2.21	$ 2.14	$ 1.90
14	Cash Flow (3)	19.1%	17.0%	$ 2.50	$ 2.98	$ 2.81	$ 2.41
15	Cash Dividends (1)	23.4%	22.7%	$ .60	$ .50	$ .40	$ .30
16	Earnings Retained and Reinvested	14.4%	12.6%	$ 1.11	$ 1.71	$ 1.74	$ 1.60
17	Shareholders' Equity	20.6%	20.5%	$ 13.94	$ 12.83	$ 11.12	$ 9.38
	Strategic Profit Model*						
18	Asset Turnover (Sales per Asset Dollar)			$ 2.80	$ 3.26	$ 3.28	$ 3.39
19	Return on Sales (Earnings as % of Sales)			× 2.52%	× 3.18%	× 3.51%	× 3.73%
20	Return on Assets			= 7.06%	= 10.38%	= 11.49%	= 12.64%
21	Leverage Factor (Asset Dollars per Equity Dollar)			× 1.89	× 1.92	× 1.98	× 1.92
22	Return on Shareholders' Equity			= 13.34%	= 19.87%	= 22.81%	= 24.27%
	Comparative Balance Sheet (Thousands)						
23	Current Asset Totals	17.8%	18.6%	$232,392	$226,863	$196,817	$176,640
24	Cash and Short-Term Investments	19.0%	12.2%	$ 15,567	$ 22,959	$ 9,362	$ 10,947
25	Accounts Receivable—Net	16.7%	15.6%	$ 68,172	$ 66,442	$ 66,836	$ 61,468
26	Inventories (Lower of Cost or Market)	18.2%	21.5%	$147,740	$134,461	$119,714	$102,918
27	Other Current Assets	21.8%	11.4%	$ 913	$ 3,001	$ 1,782	$ 1,307
28	Fixed Assets	23.3%	23.0%	$ 91,399	$ 88,695	$ 80,096	$ 64,432
29	Other Assets	11.8%	13.8%	$ 573	$ 291	$ 371	$ 453
30	Total Assets	18.9%	19.6%	$324,364	$315,849	$277,284	$241,525
31	Current Liabilities Totals	15.3%	14.9%	$ 90,911	$ 92,685	$ 67,532	$ 68,076
32	Accounts Payable	15.3%	12.4%	$ 52,003	$ 45,567	$ 44,833	$ 38,948
33	Income Tax Payable	16.4%	14.5%	$ 11,714	$ 23,122	$ 3,451	$ 8,753
34	Other Current Liabilities	15.1%	22.6%	$ 27,194	$ 23,996	$ 19,248	$ 20,375
35	Long-Term Debt	22.1%	30.0%	$ 51,929	$ 56,112	$ 64,961	$ 51,312
36	Total Liabilities	17.0%	18.3%	$142,840	$148,797	$132,493	$119,388
37	Shareholders' Equity	21.0%	20.8%	$181,524	$167,052	$144,791	$122,137
38	Ratio: Equity Long-Term Debt			3.50	2.98	2.23	2.38
39	Year End Leverage Factor: Assets ÷ Equity			1.79	1.89	1.92	1.98
	Shareholders and Shares						
40	Shareholders of Record, Year-End			4,620	5,147	4,750	4,688
41	Shares Outstanding, Year End (Thousands) (4) (5)			13,022	13,022	13,022	13,022
42	Stock Price Range During Year (4)						
	High			$ 24.88	$ 20.75	$ 26.00	$26.75
	Low			$ 13.38	$ 16.25	$ 16.50	$19.50

Explanatory Notes

(1) 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.

(2) As detailed in the Notes to Audited Financial Statements, we changed our inventory accounting for Fiscal 1978 and subsequent years to the LIFO (last-in, first-out) method, from the FIFO (first-in, first-out) method used for the prior years shown in this review. On July 17, 1979, the Internal Revenue Service released proposed amendments to the regulations relating to the financial statements conformity requirements incident to the LIFO method of inventory accounting. Thes proposed amendments provided that "supplemental or explanatory financial disclosure" using another inventory method can be disclosed. As supplemental disclosure, the figures in lines 6, 7, 8, 9, 11, 13, 14, 16, 17, 18, 19, 20, 21 22, 23, 26, 30, 31, 36, 37, 38, and 39 for Fiscal 1978 through Fiscal 1980 are shown above using the FIFO method of inventory accounting. We agree with the Service's position on this matter, because this additional explantory financial disclosure makes all yearly figures in thi review comparable, and therefore more useful and meaningful.

Fiscal Years Ended July 31

1975	1974	1973		1973	1972	1971	10 Year Compound Growth Rates 1960-1970	Base Year 1970	1969	1968	1967	1966
141	125	105	1	100	86	75	15.6%	64	58	53	44	3
3,600	2,900	3,200	2	3,296	2,630	2,071	16.6%	1,670	1,450	1,223	1,017	89
6,324	5,349	5,201	3	4,717	3,820	3,194	16.7%	2,729	2,290	2,034	1,755	1,63
$ 61.40	$ 64.75	$ 68.45	4	$ 69.29	$ 61.40	$ 53.13		$ 47.09	$ 51.98	$ 47.70	$ 43.14	$ 47.1
$388,254	$346,343	$355,999	5	$326,846	$234,556	$169,723	15.4%	$128,491	$119,053	$ 97,031	$ 75,695	$ 77,04
$ 24,483	$ 26,255	$ 26,999	6	$ 25,393	$ 18,143	$ 13,027	22.0%	$ 9,938	$ 9,514	$ 7,202	$ 5,151	$ 5,28
$ 12,057	$ 13,163	$ 13,491	7	$ 12,665	$ 9,022	$ 6,479	23.0%	$ 5,068	$ 4,906	$ 3,609	$ 2,381	$ 2,49
$ 12,426	$ 13,092	$ 13,508	8	$ 12,728	$ 9,121	$ 6,548	21.1%	$ 4,870	$ 4,608	$ 3,593	$ 2,770	$ 2,79
$ 17,020	$ 16,835	$ 16,640	9	$ 15,519	$ 11,416	$ 8,174	21.7%	$ 6,091	$ 5,559	$ 4,419	$ 3,564	$ 3,33
$ 1,215	$ 1,098	$ 1,020	10	$ 1,017	$ 946	$ 907	26.5%	$ 844	$ 780	$ 756	$ 661	$ 61
$ 11,211	$ 11,994	$ 12,488	11	$ 11,711	$ 8,174	$ 5,641	18.8%	$ 4,026	$ 3,828	$ 2,837	$ 2,109	$ 2,17
$ 29.81	$ 26.81	$ 27.94	12	$ 25.71	$ 18.54	$ 13.44	14.8%	$ 10.18	$ 9.43	$ 7.77	$ 6.13	$ 6.2
$ .95	$ 1.01	$ 1.06	13	$ 1.00	$ .72	$ .52	20.6%	$ .39	$ .37	$ .29	$ .22	$ .2
$ 1.31	$ 1.29	$ 1.28	14	$ 1.22	$ .90	$ .65	21.2%	$ .48	$ .44	$ .35	$ .29	$ .2
$ .10	$ .09	$ .08	15	$ .08	$ .07	$ .07	24.1%	$ .07	$ .06	$ .06	$ .05	$ .0
$ .86	$ .93	$ .98	16	$ .92	$ .65	$ .45	16.4%	$ .32	$ .31	$ .23	$ .17	$ .1
$ 6.44	$ 5.60	$ 4.53	17	$ 4.07	$ 3.09	$ 2.43	20.7%	$ 1.97	$ 1.65	$ 1.35	$ 1.13	$ .9
$ 2.90	$ 2.78	$ 3.98	18	$ 3.65	$ 3.40	$ 3.43		$ 3.09	$ 3.37	$ 3.24	$ 2.65	$ 3.3
× 3.20%	× 3.78%	× 3.79%	19	× 3.89%	× 3.89%	× 3.86%		× 3.79%	× 3.87%	× 3.70%	× 3.66%	× 3.6
= 9.28%	=10.15%	=15.08%	20	=14.22%	=13.20%	=13.25%		=11.72%	=13.03%	=11.98%	= 9.70%	=12.0
× 1.85	× 2.16	× 2.03	21	× 2.28	× 2.26	× 1.99		× 1.99	× 2.08	× 2.15	× 2.42	× 2.4
=17.17%	=22.70%	=30.61%	22	=32.42%	=29.81%	=26.31%		=23.34%	=27.07%	=25.76%	=23.49%	=29.4
$117,383	$ 89,136	$ 89,517	23	$ 96,391	$ 70,110	$ 54,911	17.0%	$ 38,878	$ 33,433	$ 28,617	$ 24,164	$ 23,39
$ 1,968	$ 3,780	$ 967	24	$ 7,859	$ 7,802	$ 6,304	26.6%	$ 4,658	$ 4,640	$ 4,129	$ 4,814	$ 3,02
$ 35,467	$ 23,779	$ 28,564	25	$ 37,603	$ 27,440	$ 20,944	17.9%	$ 14,887	$ 14,559	$ 11,880	$ 9,675	$ 9,31
$ 79,159	$ 60,623	$ 59,571	26	$ 50,639	$ 34,475	$ 27,332	14.9%	$ 19,040	$ 14,183	$ 12,475	$ 9,532	$ 10,93
$ 790	$ 955	$ 415	27	$ 290	$ 393	$ 331	33.7%	$ 293	$ 51	$ 133	$ 143	$ 13
$ 48,006	$ 44,818	$ 34,933	28	$ 29,238	$ 19,330	$ 14,087	23.6%	$ 10,390	$ 7,918	$ 6,546	$ 5,729	$ 5,05
$ 420	$ 146	$ 86	29	$ 85	$ 45	$ 88	9.8%	$ 148	$ 209	$ 205	$ 99	$ 10
$165,809	$134,101	$124,536	30	$125,714	$ 89,485	$ 69,086	18.1%	$ 49,416	$ 41,560	$ 35,368	$ 29,992	$ 28,55
$ 49,338	$ 29,108	$ 34,332	31	$ 55,694	$ 40,217	$ 31,198	15.8%	$ 21,212	$ 18,505	$ 14,911	$ 12,503	$ 13,63
$ 30,810	$ 18,834	$ 18,966	32	$ 36,101	$ 27,684	$ 21,999	18.3%	$ 15,178	$ 10,997	$ 9,703	$ 8,425	$ 9,49
$ 3,851	$ 3,961	$ 3,522	33	$ 5,073	$ 5,086	$ 4,293	18.5%	$ 2,833	$ 3,380	$ 2,706	$ 2,177	$ 2,18
$ 14,677	$ 6,313	$ 11,844	34	$ 14,520	$ 7,447	$ 4,906	7.7%	$ 3,201	$ 4,128	$ 2,502	$ 1,901	$ 1,95
$ 32,588	$ 32,667	$ 32,541	35	$ 18,238	$ 10,014	$ 7,296	14.4%	$ 3,315	$ 2,192	$ 3,434	$ 3,527	$ 3,12
$ 81,926	$ 61,775	$ 66,873	36	$ 73,932	$ 50,231	$ 38,494	15.6%	$ 24,527	$ 20,697	$ 18,346	$ 16,033	$ 16,76
$ 83,883	$ 72,326	$ 57,663	37	$ 51,782	$ 39,254	$ 30,592	21.2%	$ 24,889	$ 20,863	$ 17,022	$ 13,959	$ 11,79
2.57	2.21	1.77	38	2.84	3.92	4.19		7.51	9.52	4.95	3.95	3.7
1.98	1.85	2.16	39	2.43	2.28	2.26		1.99	1.99	2.08	2.15	2.4
3,686	3,335	3,718	40	3,704	3,038	2,463		2,117	1,916	1,976	2,154	1,98
13,022	12,917	12,742	41	12,731	12,683	12,629		12,623	12,623	12,609	12,375	12,31
$33.67	$34.67	$44.00	42	$48.00	$44.34	$23.00		$12.00	$12.00	$ 8.00	$ 4.00	$ 3.3
$18.67	$12.67	$24.00		$32.67	$20.00	$ 9.67		$ 6.33	$ 7.67	$ 4.00	$ 2.00	$ 2.3

low is defined as the total of net earnings plus

o reflect a 100% stock dividend in May, 1966, k split in November, 1969, a 50% stock ecember, 1971, a 33⅓% stock dividend as of , and a 50% stock dividend in June, 1976. he outstanding shares is the result of a k purchase in 1963, and subsequent employee transactions. No additional shares have been d for acquisitions.

***Strategic Profit Model**

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 1980, Lowe's achieved $2.80 in sales.

Return on S sales organiza product mix, a and variable e sales was 2.52 on Assets of 7 Beginning Ass

1969	1968	1967	1966	1965	1964	1963	1962	1961	Base Year 1960	
58	53	44	39	35	28	22	18	15	15	1
1,450	1,223	1,017	891	762	636	555	491	399	360	2
2,290	2,034	1,755	1,636	1,284	1,141	883	703	651	581	3
$ 51.98	$ 47.70	$ 43.14	$ 47.10	$ 44.44	$ 42.66	$ 44.20	$ 46.52	$ 47.85	$ 52.80	4
$119,053	$ 97,031	$ 75,695	$ 77,043	$ 57,044	$ 48,680	$ 39,012	$ 32,716	$ 31,128	$ 30,679	5
$ 9,514	$ 7,202	$ 5,151	$ 5,286	$ 3,942	$ 3,086	$ 2,438	$ 2,054	$ 1,890	$ 1,359	6
$ 4,906	$ 3,609	$ 2,381	$ 2,496	$ 1,896	$ 1,518	$ 1,233	$ 1,034	$ 956	$ 641	7
$ 4,608	$ 3,593	$ 2,770	$ 2,790	$ 2,046	$ 1,568	$ 1,205	$ 1,020	$ 934	$ 718	8
$ 5,559	$ 4,419	$ 3,564	$ 3,339	$ 2,351	$ 1,765	$ 1,356	$ 1,145	$ 1,067	$ 855	9
$ 780	$ 756	$ 661	$ 616	$ 519	$ 460	$ 411	$ 402	$ 102	—	10
$ 3,828	$ 2,837	$ 2,109	$ 2,174	$ 1,527	$ 1,108	$ 794	$ 618	$ 832	$ 718	11
$ 9.43	$ 7.77	$ 6.13	$ 6.29	$ 4.68	$ 4.08	$ 3.29	$ 2.73	$ 2.59	$ 2.56	12
$ .37	$ .29	$ .22	$ .23	$ .17	$ .13	$ .10	$ .09	$ .08	$ .06	13
$ .44	$ .35	$ .29	$ .27	$ .20	$ .15	$ .11	$ .10	$ .09	$ .07	14
$ .06	$ .06	$ .05	$ .05	$ .04	$ .04	$ .03	$ .03	$ .01	—	15
$ .31	$ .23	$ .17	$ .17	$ .13	$ .09	$ .07	$ .05	$ .07	$ .07	16
$ 1.65	$ 1.35	$ 1.13	$ .95	$ .78	$ .65	$ .53	$ .47	$ .42	$ .30	17
$ 3.37	$ 3.24	$ 2.65	$ 3.34	$ 3.20	$ 3.11	$ 2.98	$ 2.76	$ 3.32	$ 4.35	18
× 3.87%	× 3.70%	× 3.66%	× 3.62%	× 3.59%	× 3.22%	× 3.09%	× 3.12%	× 3.00%	× 2.34%	19
= 13.03%	= 11.98%	= 9.70%	= 12.09%	= 11.49%	= 10.03%	= 9.20%	= 8.62%	= 9.96%	= 10.18%	20
× 2.08	× 2.15	× 2.42	× 2.43	× 2.31	× 2.47	× 2.31	× 2.34	× 2.57	× 2.40	21
= 27.07%	= 25.76%	= 23.49%	= 29.40%	= 26.55%	= 24.78%	= 21.28%	= 20.23%	= 25.60%	= 24.43%	22
$ 33,433	$ 28,617	$ 24,164	$ 23,396	$ 19,187	$ 15,350	$ 13,976	$ 11,702	$ 9,305	$ 8,071	23
$ 4,640	$ 4,129	$ 4,814	$ 3,024	$ 3,801	$ 3,374	$ 2,735	$ 1,956	$ 1,299	$ 442	24
$ 14,559	$ 11,880	$ 9,675	$ 9,310	$ 7,165	$ 5,586	$ 4,968	$ 3,769	$ 3,108	$ 2,858	25
$ 14,183	$ 12,475	$ 9,532	$ 10,931	$ 8,156	$ 6,337	$ 6,214	$ 5,868	$ 4,801	$ 4,755	26
$ 51	$ 133	$ 143	$ 131	$ 65	$ 53	$ 59	$ 109	$ 97	$ 16	27
$ 7,918	$ 6,546	$ 5,729	$ 5,058	$ 3,832	$ 2,381	$ 1,531	$ 1,261	$ 1,229	$ 1,253	28
$ 209	$ 205	$ 99	$ 105	$ 77	$ 73	$ 123	$ 134	$ 1,301	$ 58	29
$ 41,560	$ 35,368	$ 29,992	$ 28,559	$ 23,096	$ 17,804	$ 15,630	$ 13,097	$ 11,835	$ 9,382	30
$ 18,505	$ 14,911	$ 12,503	$ 13,630	$ 11,213	$ 7,454	$ 7,123	$ 5,696	$ 4,922	$ 4,874	31
$ 10,997	$ 9,703	$ 8,425	$ 9,496	$ 7,913	$ 5,149	$ 5,036	$ 4,255	$ 3,187	$ 2,827	32
$ 3,380	$ 2,706	$ 2,177	$ 2,182	$ 1,671	$ 1,142	$ 1,073	$ 855	$ 716	$ 521	33
$ 4,128	$ 2,502	$ 1,901	$ 1,952	$ 1,629	$ 1,163	$ 1,014	$ 586	$ 1,019	$ 1,526	34
$ 2,192	$ 3,434	$ 3,527	$ 3,127	$ 2,377	$ 2,615	$ 2,139	$ 1,680	$ 1,791	$ 862	35
$ 20,697	$ 18,346	$ 16,033	$ 16,765	$ 13,606	$ 10,097	$ 9,304	$ 7,435	$ 6,792	$ 5,736	36
$ 20,863	$ 17,022	$ 13,959	$ 11,794	$ 9,490	$ 7,707	$ 6,326	$ 5,662	$ 5,043	$ 3,646	37
9.52	4.95	3.95	3.77	3.99	2.95	2.95	3.37	2.81	4.23	38
1.99	2.08	2.15	2.42	2.43	2.31	2.47	2.31	2.35	2.57	39
1,916	1,976	2,154	1,985	1,871	1,967	2,034	2,047	—	—	40
12,623	12,609	12,375	12,317	12,183	11,919	11,856	12,000	12,000	12,000	41
										42
$12.00	$ 8.00	$ 4.00	$ 3.33	$ 2.67	$ 2.00	$ 1.00	$ 1.67	—	—	
$ 7.67	$ 4.00	$ 2.00	$ 2.33	$ 1.67	$ 1.00	$ .67	$ 1.00	—	—	

er is affected by sales volume, by the cash-
x and by the composition and performance of
sheet factors. The amounts of assets allocated
counts receivable, and fixed assets, and the turn-
ventory and receivables, all affect Asset Turnover.
in assets at the beginning of fiscal 1980, Lowe's
in sales.

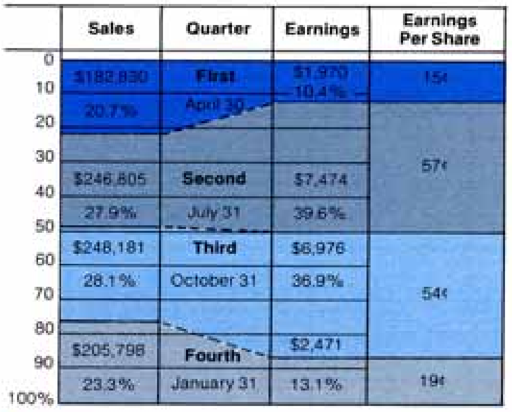
Return on Sales is the measurement of the efficiency of the sales organization. It is affected by sales volume, customer and product mix, and income statement factors—margin rates, fixed and variable expenses, and tax rates. Fiscal 1980's return on sales was 2.52%. This multiplied by Asset Turnover, gives Return on Assets of 7.06%. This is the same as dividing Net Earnings by Beginning Assets, although totals vary due to rounding.

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 1980, Lowe's had $.89 in Liabilities, thus financing $1.89 in assets. This $1.89 leverage factor times the 7.06% Return on Assets gives Return on beginning Shareholders' Equity of 13.34%. Totals vary due to rounding.

Quarterly Review of Performance

1980 Sales and Earnings 1

Dollars in Thousands and % of Total Year



Quarterly % Change of Operating Results 2

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

	Quarter Ended			
	Jan 31 1981	Oct 31 1980	Jul 31 1980	Apr 30 1980
Net Sales	+ 7.8%	− 3.6%	− 7.6%	− 3.3%
Cost of Sales	+ 8.3%	− 3.1%	− 7.1%	− 1.8%
Gross Profit	+ 5.3%	− 6.0%	− 9.6%	− 10.1%
Expenses:				
S, G, & A	+ 13.9%	+ 1.7%	− .8%	+ 3.7%
Depreciation	+ 6.0%	− .2%	+ 1.1%	+ 3.0%
Emp. Benefit	+ 13.6%	+ 2.0%	− 3.2%	+ .7%
Bad Debt Prov.	NM	+ 26.1%	− 29.2%	− 25.6%
Interest Expense	− 49.9%	− 46.8%	− 39.7%	− 26.2%
Total	+ 12.0%	− .5%	− 4.2%	+ .3%
Pre-Tax Earnings	− 23.8%	− 16.3%	− 18.8%	− 50.3%
Income Tax Prov.	− 21.4%	− 15.2%	− 18.0%	− 51.4%
Net Earnings	− 25.7%	− 17.3%	− 19.7%	− 49.4%

Quarterly % Analysis of Operating Results 3

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

	Quarter Ended			
	Jan 31 1981	Oct 31 1980	Jul 31 1980	Apr 30 1980
Net Sales	100.00%	100.00%	100.00%	100.00%
Cost of Sales	83.65%	82.28%	82.06%	82.76%
Gross Profit	16.35%	17.72%	17.94%	17.24%
Expenses:				
S, G, & A	10.99%	9.39%	9.24%	11.39%
Depreciation	1.34%	1.00%	1.00%	1.42%
Emp. Benefit	1.28%	1.18%	1.05%	1.30%
Bad Debt Prov.	.15%	.32%	.26%	.44%
Interest Expense	.38%	.35%	.49%	.74%
Total	14.14%	12.24%	12.04%	15.29%
Pre-Tax Earnings	2.21%	5.48%	5.90%	1.95%
Income Tax Rate	45.69%	48.70%	48.70%	44.66%
Net Earnings	1.20%	2.81%	3.03%	1.08%

Lowe's Customer Sales Profile 4

(Dollars in thousands, rounded totals)

	Fiscal 1978		Fiscal 1979		Fiscal 1980		
Category	Sales	% of Total	Sales	% of Total	Sales	% Change[1]	% of Total
1st Qtr.							
PB	$104,890	63%	$110,607	58%	$ 94,836	− 14%	52%
RC	62,450	37%	78,483	42%	87,994	+ 12%	48%
Totals	$167,340	100%	$189,090	100%	$182,830	− 3%	100%
2nd Qtr.							
PB	$134,059	59%	$154,421	58%	$121,784	− 21%	49%
RC	93,778	41%	112,665	42%	125,021	+ 11%	51%
Totals	$227,837	100%	$267,086	100%	$246,805	− 8%	100%
3rd Qtr.							
PB	$128,107	58%	$140,625	55%	$133,477	− 5%	54%
RC	94,311	42%	116,943	45%	114,704	− 2%	46%
Totals	$222,418	100%	$257,568	100%	$248,181	− 4%	100%
4th Qtr.							
PB	$101,927	58%	$105,895	55%	$113,742	+ 7%	55%
RC	73,603	42%	85,013	45%	92,056	+ 8%	45%
Totals	$175,530	100%	$190,908	100%	$205,798	+ 8%	100%

"PB" denotes Lowe's professional buyer (charge) sales.
"RC" denotes Lowe's retail customer (cash) sales.
Fiscal years end on January 31 of following year.
1 Percent change from same quarter previous year, to nearest whole percent.

Lowe's Product Sales Profile 5

(Dollars in thousands, rounded totals)

	Fiscal 1978		Fiscal 1979		Fiscal 1980		
Category	Sales	% of Total	Sales	% of Total	Sales	% Change[1]	% of Total
1st Qtr.							
A	$116,947	70%	$127,423	67%	$118,483	− 7%	65%
B	50,393	30%	61,667	33%	64,347	+ 4%	35%
Totals	$167,340	100%	$189,090	100%	$182,830	− 3%	100%
2nd Qtr.							
A	$154,273	68%	$178,734	67%	$157,538	− 11%	64%
B	73,564	32%	88,352	33%	89,267	+ 1%	36%
Totals	$227,837	100%	$267,086	100%	$246,805	− 8%	100%
3rd Qtr.							
A	$155,713	70%	$175,618	68%	$170,296	− 3%	69%
B	66,705	30%	81,950	32%	77,885	− 5%	31%
Totals	$222,418	100%	$257,568	100%	$248,181	− 4%	100%
4th Qtr.							
A	$114,653	65%	$125,179	66%	$130,465	+ 4%	63%
B	60,877	35%	65,729	34%	75,333	+ 13%	37%
Totals	$175,530	100%	$190,908	100%	$205,798	+ 7%	100%

"A" denotes sales of lumber, building materials and hardware.
"B" denotes all other sales.
Fiscal years end on January 31 of following year.
1 Percent change from same quarter previous year, to nearest whole percent.

Lowe's Store Sales Profile 6

(Dollars in thousands, rounded totals)

	Fiscal 1978					Fiscal 1979					Fiscal 1980				
Category	Stores	Sales	Per Store Average	% Change[1]	% of Total[2]	Stores	Sales	Per Store Average	% Change[1]	% of Total[2]	Stores	Sales	Per Store Average	% Change[1]	% of Total[2]
1st Qtr.															
ES[3]	158[5]	$155,272	$ 982.7	− 1%	93%	181[5]	$177,640	$ 981.4	—	94%	197[5]	$174,842	$ 887.5	− 10%	96%
NS[4]	24	12,068	502.8	+ 12%	7%	19	11,450	602.6	+ 20%	6%	15	7,988	532.5	− 12%	4%
Totals	182	$167,340	$ 919.5	− 2%	100%	200	$189,090	$ 945.5	+ 3%	100%	212	$182,830	$ 862.4	− 9%	100%
2nd Qtr.															
ES	174[5]	$220,528	$1,267.4	+ 4%	97%	183[5]	$251,129	$1,372.3	+ 8%	94%	198[5]	$236,205	$1,192.9	− 11%	96%
NS	11	7,309	664.5	+ 141%	3%	19	15,957	839.8	+ 26%	6%	14	10,600	757.1	− 11%	4%
Totals	185	$227,837	$1,231.6	+ 13%	100%	202	$267,086	$1,322.2	+ 7%	100%	212	$246,805	$1,164.2	− 11%	100%
3rd Qtr.															
ES	179[5]	$216,704	$1,210.6	+ 9%	97%	185[5]	$242,422	$1,310.4	+ 8%	94%	202[5]	$239,774	$1,187.0	− 9%	97%
NS	10	5,714	571.4	+ 26%	3%	19	15,146	797.2	+ 40%	6%	11	8,407	764.2	− 4%	3%
Totals	189	$222,418	$1,176.8	+ 17%	100%	204	$257,568	$1,262.6	+ 7%	100%	213	$248,181	$1,165.2	− 8%	100%
4th Qtr.															
ES	179[5]	$168,375	$ 940.6	+ 8%	96%	196[5]	$185,849	$ 948.2	+ 1%	97%	208[5]	$201,485	$ 968.7	+ 2%	98%
NS	20	7,155	357.8	+ 34%	4%	13	5,059	389.2	+ 9%	3%	6	4,313	718.8	+ 46%	2%
Totals	199	$175,530	$ 882.1	+ 13%	100%	209	$190,908	$ 913.4	+ 4%	100%	214	$205,798	$ 961.7	+ 5%	100%

Fiscal years end on January 31 of following year.
[1] Per Store Average change to nearest whole percent.
[2] Portion of Total Sales, to nearest whole percent.
[3] Established Stores, stores which have been open for one year or more.
[4] New Stores, stores which have been open less than a year.
[5] The number and average sales volume of Established Stores have been reduced appropriately for comparative purposes reflecting closing of stores during the reported periods.

Investor's Quick Reference Guide

Dividend Declaration Dates:
Usually the middle of each quarter to shareholders of record approximately the middle of April, July, October and January.

Dividend Payment Dates:
Usually the last of April, July, October and January.

Dividend Disbursing Agent:
Wachovia Bank & Trust Co., N.A.
Box 3001
Winston-Salem, N.C. 27102

Dividend Reinvesting Agent:
Citibank, N.A.
Box 3357, Grand Central Station
New York, N.Y. 10043

Dividend Policy:
Lowe's pays a cash dividend each quarter and since becoming a public company in 1961 has paid 80 consecutive quartterly dividends. The dividend has been increased in each fiscal year since 1973. Increases in dividend payment generally have been considered at the board meeting in the first fiscal quarter.

Lowe's Telephone:
919-667-3111

Lowe's Mailing Address:
Box 1111
North Wilkesboro, N.C. 28656

Lowe's Street Address:
State Highway 268 East
(Elkin Highway)
North Wilkesboro, N.C. 28659

Questions about Lowe's,
Shareholder Inquiries: Call or write:
Bill Brantley
Vice President, Investor Relations
Box 1111
North Wilkesboro, N.C. 28656
Telephone: 919-667-3111, ext. 631

Annual Meeting Date:
May 29, 1981, 2 p.m.
at the Holiday Inn,
Highway 268 West
Wilkesboro, N.C.

Stock Transfer Agents:
Wachovia Bank & Trust Co., N.A.
Box 3001
Winston-Salem, N.C. 27102

Morgan Guaranty Trust Co.
9 West 57th Street
New York, N.Y 10019

Stock Registrar:
The Northwestern Bank
Box 85
Winston-Salem, N.C. 27102

The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, N.Y. 10005

Lowe's Common Stock:
Ticker symbol: LOW
Listed:
New York Stock Exchange
20 Broad Street
New York, N.Y. 10005

Pacific Stock Exchange
301 Pine Street
San Francisco, Calif. 94104

Quarterly Reports:
Mailed usually the fourth week after the end of the quarter, April 30, July 31, October 31 and January 31.

Annual Reports:
Mailed usually 90 days after fiscal year-end, January 31.

Disclosure Policy:
Lowe's Companies, Inc., for the nearly 20 years of its public life, has maintained a policy of complete and free disclosure of all information needed by investors to determine whether they should buy, sell or hold Lowe's stock. The Company desires and intends not only to meet the letter but the spirit of laws, regulations and rules. It follows and — in some cases—leads good practice and custom. Annually the Company seeks new and fresh ways of presenting financial and other information about itself to better inform the investor. Your comments are always welcome.

Lowe's Quarterly Stock Price Range and Dividend 1

Fiscal Year Ended January 31, 1981:

	High	Low	Dividend
Fourth Quarter — NYSE, PSE	$22.00	$17.25	$.15
Third Quarter — NYSE	24.875	20.00	.15
Second Quarter — NYSE	18.50	14.875	.15
First Quarter — NYSE	17.25	13.375	.15
Fiscal Year Ended January 31, 1980:			
Fourth Quarter — NYSE	$18.375	$17.00	.125

	Bid		Asked		
	High	Low	High	Low	Dividend
Fourth Quarter—OTC	$19.25	$17.00	$20.00	$17.75	$.125
Third Quarter—OTC	20.50	17.00	20.75	17.75	.125
Second Quarter—OTC	18.00	16.25	18.75	17.00	.125
First Quarter—OTC	19.50	17.50	20.25	18.25	.125
Fiscal Year Ended January 31, 1979:					
Fourth Quarter—OTC	$19.75	$16.50	$20.25	$17.25	$ .10
Third Quarter—OTC	26.00	17.00	26.75	17.25	.10
Second Quarter—OTC	23.00	19.50	23.75	20.25	.10
First Quarter—OTC	23.75	18.75	24.75	19.50	.10

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* *Charts*

Credits
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Photography Assistance: Robert Gragg and Lowe's of Morganton, N.C., staff
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