

Lowe's 1971 Annual Report



10 YEARS OF
GROWTH
Lowe's Companies, Inc.

Here's What We Do



Lowe's Stores

We own and operate 75 stores in 12 states. Each store combines the merchandise, service, and functions of a lumber yard, a building materials supplier, a plumbing, heating, and electrical supply center, a hardware store, an appliance and home electronics dealer, and a home hard goods discounter.

We provide our merchandise and services to two major categories of customers. Professional Buyers, including contractors, home builders, carpenters, and developers, purchased 61% of Lowe's record sales volume in 1971. A wide variety of Retail Customers, including home owners, do-it-yourselfers, farmers, and suburbanites, bought 39%, and our merchandising efforts to this group resulted in Lowe's being designated Brand Name Retailer of The Year.

Lowe's management is engaged in an aggressive and balanced expansion of stores, sales, and earnings per share, for the benefit of our customers, our suppliers, our employees, and our shareholders. Lowe's has been listed in 101 Growth Stocks and A New Look at Growth by Merrill Lynch, and 33 Super Growth Stocks by Standard and Poor's.

Cover Story

1971 is a double anniversary year for Lowe's, marking 25 years in the building supply business, and 10 years as a public company. These years begin to fit rather neatly into those classic life-cycle phases of Birth, Growth, and Maturity. The first 15 years, 1946 through 1960, we define as Lowe's Birth years. During this time, Lowe's developed its basic product line, its marketing thrust to customers, and its organizational life style. These colorful years are chronicled on pages 32 and 33.

In 1961, Lowe's entered its real Growth phase, with new top management, public ownership, and a keen sense of opportunity at hand. The previous Annual Reports pictured on the cover have described Lowe's first 9 years of Growth. This report deals with the accomplishments of 1971, our 10th Growth year, and the opportunities and the dimensions for Lowe's next 10 years of Growth.

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Annual Meeting

November 22, 1971, 2:00 p.m.
The Northwestern Bank Building
North Wilkesboro, N.C.

Here's How We Did

Highlights FOR THE YEAR ENDED JULY 31:	1971	1970	Change %
Customers Served	3,194,323	2,728,618	+17.1
Customer Purchases (Total Sales)	\$169,722,859	\$128,491,284	+32.1
Pre-Tax Earnings	\$ 13,027,470	\$ 9,938,072	+31.1
Earnings Paid to Government (Taxes)	\$ 6,479,881	\$ 5,068,261	+27.9
Net Earnings for Shareholders	\$ 6,547,589	\$ 4,869,811	+34.5
Earnings per Common Share	\$ 1.56	\$ 1.16	+34.5
Earnings Paid to Shareholders in Cash	\$ 907,027	\$ 843,735	+ 7.5
Cash Dividends per Common Share	21½ ¢	20¢	+ 7.5
Earnings Reinvested for Future Growth	\$ 5,640,562	\$ 4,026,076	+40.1
Percent Return on Average Shareholders' Equity	23.64%	21.23%	
10 Year Annual Growth Rate in Earnings Per Share	21.10%	20.48%	

LOWE'S
Companies, Inc.

Here's Where We Are

PRESENT STORES

Alabama

Dothan
Montgomery
Muscle Shoals

Delaware

Dover
Wilmington

Florida

Tallahassee

Georgia

Albany
Augusta
College Park
Columbus
Doraville
Moultrie
Savannah
Smyrna

Kentucky

Frankfort
Lexington

Maryland

Cumberland
Hagerstown
Salisbury

North Carolina

Asheboro
Asheville
Boone
Burlington
Charlotte (2)
Durham
Fayetteville
Greensboro
Hendersonville
Hickory
High Point
Lumberton
Mount Airy
North Wilkesboro
Raleigh
Rockingham
Shelby
Sparta
Washington
Waynesville
Whiteville
Wilmington
Wilson
Winston-Salem

Ohio

Belpre
Circleville

South Carolina

Anderson
Charleston
Columbia
Greenville
Manning
Myrtle Beach
Sumter

Tennessee

Bristol
Chattanooga
Kingsport
Knoxville
Morristown
Nashville

Virginia

Charlottesville
Danville
Hopewell
Martinsville
Newport News
Norfolk
Richmond
Roanoke
Staunton
Suffolk
Vienna
Woodbridge

West Virginia

Charleston
Huntington
Oak Hill
Princeton

STORES IN PROCESS

Morganton, N.C.	Jacksonville, N.C.
Johnson City, Tenn.	Louisville, Ky.
Gastonia, N.C.	Athens, Ga.
Lynchburg, Va.	Macon, Ga.
Tupelo, Miss.	Florence, S.C.
Morgantown, W.Va.	Jackson, Tenn.
Clarksville, Tenn.	Elizabethtown, Ky.
Clarksville, Ind.	



LEGEND:

- Present Stores
- Stores in Process

Chairman's Letter to Shareholders

To Our Shareholders: This 1971 Annual Report is addressed to two major groups of Lowe's shareholders. First, to those of you who have owned Lowe's stock for some time. Our survey indicates that many of you have received each annual report shown on the cover of this one. Secondly, to the new group of you who became Lowe's shareholders for the first time during this past year, with the January offering of Lowe's stock by the Company's Profit Sharing Plan and Trust. This report presents Lowe's past achievements, current capabilities, and future opportunities for your evaluation.

Fiscal 1971: It was a very good year. One of record breaking growth for Lowe's, with new levels of achievement and strength being attained in virtually every important measure. The basic marketing climate in our business areas was vastly improved over last year, and our sales, marketing, and operational efforts flourished throughout 1971.

Sales: Lowe's total sales volume was \$169,722,859, an increase over last year of 32.1% and of \$41,231,575. Again this year, both the total volume and the dollar increase are company records. Another sales goal achieved this year was our first two million dollar day, with a sales volume of \$2,066,165 on July 5. Ten years of growth in sales equals an 18.5% compound growth rate, all internally generated, as no acquisitions have been made.

Earnings: Reflecting this surge of business, our net earnings after taxes showed healthy growth. The earnings increase over the previous year exceeded one and a half million dollars, up from \$4,869,811 to \$6,547,589. Earnings per share increased 34.5%, from \$1.16 to \$1.56. Ten years of growth in earnings per share have posted an annual compound growth rate of 21.1%, a significant record.

Taxes: For the first time since 1967, Lowe's earnings were not materially reduced by the Federal surtax. 1970

earnings were reduced by approximately 8¢ per share compared to a negligible amount in 1971. However, total taxes paid as a percentage of earnings before taxes declined only slightly, from 51% in 1970 to 49.7% in 1971. Note 4 on page 37 has additional information on income tax.

Dividends: During this fiscal year, the indicated annual cash dividend rate was increased 10%, from 20¢ to 22¢. In fiscal 1971, the quarterly cash dividends paid to shareholders totalled \$907,027. Our May 1, 1971 dividend was the 40th consecutive quarterly cash payment. These have been ten years of growth in dividends also, with ten consecutive annual increases both in total dollar and per share dividend payments.

Expansion: As projected a year ago, Lowe's opened more new stores in fiscal 1971 than in any previous year. Eleven new stores, bringing our total to seventy five, were opened in the following locations: Dothan, Muscle Shoals, and Montgomery, Alabama; College Park, Doraville, and Smyrna, Georgia; Danville, and Martinsville, Virginia; Mount Airy, and Fayetteville, North Carolina; and Tallahassee, Florida. None of these locations were takeovers of existing facilities. For the first time, all our expansion locations are new Lowe's stores, custom-designed and built for better customer service. The new stores posted a sales total of \$7,820,000 during 1971, and all opening costs and expenses have been charged against the 1971 Income Statement.

An even more ambitious expansion program is well underway for fiscal 1972. Listed on the adjacent page are 15 new stores already in various stages of establishment and construction.

Financial Comments: Lowe's expansion is not weakening our financial position. While sales have increased 75% in the last three fiscal years, earnings after taxes have grown by 82%, and Lowe's



Balance Sheet remains liquid and strong in my judgment. Shareholders' Equity (Net Worth) has increased by 80% during this time, from \$17,022,000 in 1968 to \$30,592,000 in 1971, after the payment of \$2,531,000 in dividends. This capital growth has come from retained earnings, which with long term debt, and proceeds from exercise of employee stock options will be used to finance our planned expansion. We do not contemplate any new public stock issue or other dilutionary financial offerings.

Other: As I close this tenth annual message to shareholders, I repeat management's appreciation to you for your continued support and confidence. Our appreciation also extends to all the other Lowe's people—our employees, our customers, our suppliers and our friends, for their many contributions and achievements. We look forward to continued association and progress during Lowe's next ten years of growth.

EDWIN DUNCAN
Chairman of the Board

September 30, 1971
North Wilkesboro, N.C.

President's Report

A Review of the Year: The record setting results of fiscal 1971 are due to many factors, but the most important was the turnaround of the residential housing industry. As shown in Table A, after national housing starts were severely depressed in fiscal 1970 by the shortage in investment funds for residential mortgages, they rebounded to the 1969 levels during the first months of this fiscal year, and have since continued to grow to record heights, reaching the 2,000,000 annual start mark for the first time.

This increasing market activity enabled Lowe's to post accelerating growth in sales and earnings during fiscal 1971. For the quarters ending October 31, January 31, April 30, and July 31, sales comparisons with the previous year's figures were +23%, +26%, +36%, and +41% respectively. Quarterly net earnings comparisons were +21%, +22%, +50%, and +43%. While seasonal and year to year patterns always exist in quarterly comparisons, a review of these sales and earnings percentages by quarter illustrates the leverage on earnings which increased sales volume produces.

Store Performance: Again this year, our individual stores achieved balanced performance and increased market penetration store by store. Only three stores did not record a new high in annual sales volume. As outlined in Table B, the 64 stores that were open at the beginning of the fiscal year contributed \$161,900,000 in sales. This was a 26% growth over their 1970 total, and provided \$33,410,000 or 81% of the Lowe's total sales increase. The 11 new stores opened at various times during the year contributed \$7,800,000. The most significant figure in Table B is the record sales average per established store of \$2,530,000 in fiscal 1971.

Marketing Mix: Although the resurgence of residential construction was of major importance to our 1971 results, Lowe's total marketing opportunities are broad,

encompassing two major groups of customers who buy a wide range of products and services from Lowe's. Homebuilders and other professional buyers are our first major customer group. Table B on page 15 shows that sales to this group in fiscal 1971 were \$104,050,000, 61% of the total, and up 39% from a year ago. Sales to retail consumers were \$65,670,000, 39% of the total, and up 23% from fiscal 1970.

The composition of our seven major merchandise categories and totals and trends therein are shown on page 29. Six of the seven contributed to our increased sales this year, with large dollar increases being attained by Lumber and Building Materials. After a 40% increase in 1970, sales in Home Entertainment slipped slightly, during the second quarter.

To clarify a sometimes misunderstood point, both groups of Lowe's customers are markets for, and do purchase, all seven categories of our product line. The degree varies, of course, but we do sell both lumber and appliances to both professional buyers and retail customers. In effect, we are operating two major businesses out of each Lowe's store. This is a major factor in the productivity and profitability of our assets and our people.

Total customers served during this year were 3,194,323, a 17% increase. The average customer purchase was up 13% from \$47.09 last year to \$53.13, our highest average to date.

Price Levels: Prices of construction materials have moved upward during this fiscal year; however, as Table C indicates, they still lag behind the consumer price index. Much of the increase in 1971 came during the April, May, and June quarter in phase with the higher level of residential construction. Although the 1971 index of all construction materials is about 4% higher than the 1969 index, many important component commodities are at or below the levels of 1969.

Many of these commodities have

seasonal price patterns, particularly lumber and plywood, and therefore can affect operating margins. However, Lowe's inventory turnover is high, 7.3 times for all merchandise last year, (compared to the median of 5.4 for lumber and building material dealers as reported in *Retailing Ratios*, *Dun's Review*, and our buyers, who are in daily contact with West Coast and Canadian mills, use Lowe's closed circuit teletype system to advise our stores of price action within moments; consequently, most deleterious effects of sudden price fluctuations are dampened. Nor do we believe in the concept of "inventory profits". Profit occurs only when something is sold, and obtaining a proper margin between what we pay for merchandise and what we sell it for is the responsibility of management. Another significant point is that Lowe's past sales growth and future projections depend very little on price increases.

Lowe's Homestead: In November, 1970, we introduced an innovative marketing program, the Lowe's Homestead house. This is a low-cost home "package", an architect designed small home with floor space of about 1,000 square feet. Through July, 1971, 660 units have been sold for a sales volume of \$3,400,000.

The sales appeal of the Homestead stems from its unique blend of conventional materials and construction methods, imaginative and time-saving new contractor service techniques, and Lowe's Low Prices. Unlike so many predecessors in the low-cost home business, the Lowe's Homestead is a complete unit ready for family residence. Included are all structural materials—lumber, plywood, doors, windows, wiring, plumbing, and heating; as well as all finish materials—paneling, carpeting, cabinets, and light fixtures. The Homestead offers the public a complete house from foundation to roof at a materials cost of less than \$5.00 per square foot. Best of all from Lowe's standpoint, we have not had to acquire

The Members of the Executive Committee of Lowe's Board of Directors presently constitute the Office of the President. This group, now in its 14th year together, is shown here during one of its regular weekly meetings. Pictured from left are: Robert L. Strickland, Senior Vice-President, Marketing; Joe V. Reinhardt, Senior Vice-President, Operations; Leonard G. Herring, Senior Vice-President, Finance; Petro Kulynych, Executive Vice-President, Corporate Affairs; John A. Walker, Executive Vice-President, Stores.

Housing Starts, U. S. A

Thousands of Starts, Seasonally Adjusted Annual Rates

Month	Fiscal 1969		Fiscal 1970		Fiscal 1971	
	Rate	Change	Rate	Change	Rate	Change
August	1,518	- 9%	1,376	- 9%	1,425	+ 4%
September	1,592	- 7%	1,481	- 7%	1,509	+ 2%
October	1,570	-11%	1,390	-11%	1,583	+14%
November	1,733	-26%	1,280	-26%	1,693	+32%
December	1,507	- 7%	1,402	- 7%	2,054	+46%
January	1,878	-46%	1,059	-46%	1,725	+62%
February	1,686	-23%	1,306	-23%	1,724	+32%
March	1,584	-12%	1,392	-12%	1,918	+37%
April	1,563	-22%	1,224	-22%	1,903	+55%
May	1,533	-19%	1,242	-19%	1,975	+59%
June	1,507	- 8%	1,393	- 8%	2,000	+44%
July	1,429	+12%	1,603	+12%	2,215	+38%

SOURCE: DEPT. OF COMMERCE



manufacturing facilities. Each store stocks and delivers all materials.

Our computers in each Lowe's store provide a service which saves vast amounts of time for both our sales force and their building contractor customers. The material list for the home has been converted to IBM card decks. Thus the frequent price changes of building materials which heretofore obsoleted material list price quotations almost on a weekly basis, and necessitated hours of re-calculation by hand, are no longer a problem. In minutes, our computers process the price changes and recalculate the Homestead material list pricing.

Another time-saving feature of the Homestead is the sorting of the materials into several delivery packages, that can be scheduled to arrive at the construction site in chronological building sequence.

With the growing sales acceptance of the concept, we have introduced the Homestead Residential Creations Portfolio, featuring 12 plans with numerous exterior options. The floor spaces range from 800 to 2,050 square feet, with architectural style varying from Cape Cod to French Provincial. This will receive major marketing emphasis in fiscal 1972.

Current Directions & Outlook: Housing demand, mortgage funds, housing starts, construction spending, retail sales activity at existing stores, and Lowe's scheduled new store expansion all are at historic peaks. The first quarter of fiscal 1972 has opened very strongly, and all the ingredients seem to be present for another year of record growth at Lowe's. Beyond 1972, there are strong indications that the past cyclicity of the housing industry will not reoccur to the severe degree of the past few years, due to new federal government support for residential financing (see pages 8 and 9). But regardless of how long it will last, the long awaited housing boom is finally here, and our objective is to maximize Lowe's profitability and growth.

Lowe's Store Sales B

Fiscal Year	Total Sales*	Average Sales Per Store*
Fiscal 1969		
53 "OLD" STORES	\$116,650,000	\$ 2,200,000
5 NEW STORES	2,400,000	
58 TOTAL STORES	\$119,050,000	
Fiscal 1970		
57 "OLD" STORES*	\$122,640,000	\$ 2,150,000
7 NEW STORES	5,850,000	
64 TOTAL STORES	\$128,490,000	
Fiscal 1971		
64 "OLD" STORES	\$161,900,000	\$ 2,530,000
11 NEW STORES	7,820,000	
75 TOTAL STORES	\$169,720,000	

* ROUNDED
ONE STORE CLOSED

Price Index Ranges C

1967=100, Calendar Years

Category	Year	Index	Category	Year	Index
Consumer Price Index	1969	109.8	All Construction Materials	1969	111.9
	1970	116.3		1970	112.5
	1971*	120.1		1971*	116.8
Lumber	1969	131.5	Plywood	1969	122.8
	1970	113.7		1970	108.5
	1971	126.8		1971*	112.5
Gypsum	1969	103.5	Millwork	1969	117.8
	1970	100.0		1970	116.0
	1971*	100.0		1971*	117.8
Plumbing	1969	107.4	Hardware	1969	104.5
	1970	102.5		1970	109.5
	1971*	114.5		1971*	113.6

*SIX MONTHS AVERAGE

SOURCE: H.U.D. TRENDS



People and Organization

LOWE'S SOURCES AND RESOURCES

Lowe's Sales and Marketing Group meets weekly, for review of current performance and future planning.

A Store Warehouse Manager, checking the load of material to be delivered to a customer.

A Lowe's Salesette in Smyrna, Georgia, being instructed in fast checkout procedure by Manager Richard Burgess.

Field Organization: On the first day of this fiscal year, a new position at Lowe's was staffed, with Dwight E. Pardue and Albert E. Plemmons becoming the first two Regional Managers. Later in the year, Lowe's growth caused another region to be formed, and John Ross Burgess, Jr. was appointed. These three men are exceptionally able and experienced Lowe's men. Their work during this year, in selecting their capable staffs of supervisors, and in providing additional leadership and supervision to the stores in their respective regions, has added a positive new dimension to management.

Store Managers: Each store manager is an executive to whom a great amount of responsibility and trust is extended. He has three primary areas of accountability: First, to achieve his store's profit dollar budget. Secondly, to safeguard the physical assets entrusted to his supervision. Third, to train and develop his people for additional responsibility with Lowe's. He also knows that he must keep Lowe's competitive in the market place. Within these broad guidelines, a great deal of freedom of thought and action is encouraged. Of the present 75 managers, 60 began on Lowe's sales floor, 3 as warehousemen, 3 as office employees, 2 from General Office departments, and 7 came from outside.

Store Sales Organization: Each store has an Assistant Manager who directs the sales activity for Lowe's professional sales force, along with his personal sales efforts. These men are a principal source for new store managers, as are our Consumer Sales Managers who provide leadership and direction for our consumer sales force. New this year in 60 stores are Lowe's Salesettes— young sales ladies who are already making a real contribution to sales and service.

Office Management: Responsibility for store office operations, including credit administration, is delegated to the Office



and Credit Managers at each Lowe's store. These men and women average five years experience with the company, and are aided by competent office workers and office manager trainees.

Warehouse Management: Lowe's Warehouse Managers have a large and important job, being responsible for receiving, delivery, storage, customer service, and inventory security, and all on a dollar-conscious budget. The low level of inventory shortages at Lowe's testifies to the fine job done by this group.

General Office Organization: In the center of our personnel structure is the Office of the President. These men, shown on Page 5, have managed Lowe's affairs in this capacity since 1958, and have an average age of 45. During this year, Lowe's reorganized our staff marketing organization, with the appointment of five Marketing Managers. These men work closely with Merchandising Managers and Purchasing Supervisors and with Lowe's sales teams in the stores.

Tactical Staff: This group, formed in 1969, provides general administrative liaison between General Office departments, the President's Office, the Regional Managers, and the stores. Their weekly meetings help retain close control over operations during this period of rapid expansion.

Departments: The work at the General Office is done by various functional departments. These are Accounting, Advertising, Aviation, Central Warehousing, Construction, Costing, Data Processing, Expansion, Inventories, Marketing, Merchandising, Operations, Personnel, Purchasing, and Sales.

Lowe's Personnel: Lowe's employees numbered 1,000 in 1967, 21 years after Lowe's beginning. It took just four years to pass the 2,000 level. As Cecil Murray, Lowe's Personnel Director says, "Our growth requires many new people, and our reputation attracts many good people".



Regional Manager Ross Burgess, and staff, checking day's itinerary prior to boarding one of Lowe's turboprop aircraft. Lowe's Aviation Department, directed by Max Freeman, has received 7 Business Aircraft Safety Citations, and is essential to Lowe's growth and development.



Suppliers of Money and Credit

LOWE'S SOURCES AND RESOURCES

A building of the Federal Reserve, monumental in architecture and in importance to Lowe's business opportunities.



General: A network of sources for money and credit is essential for Lowe's business to function and to grow. One of the major elements in this network is the availability of permanent financing for residential construction and this has been severely depressed twice in the last five years in highly publicized "credit crunches", due largely to anti-inflationary monetary policies of the Federal Reserve Board. Actions and developments in recent months now give confidence that the volatile pattern of housing due to financial problems will be less severe in the future.

Federal Government: In a bold move, HUD has announced its "tandem" plan to subsidize FHA and VA mortgages up to a \$22,000 maximum. Previously, government subsidy was primarily for low-income housing. Through the Government National Mortgage Association and the Federal National Mortgage Corporation, mortgage rates will be held at 7%, an attractive rate for home buyers. A revolving commitment fund of \$2 billion has been established for that purpose. Also, the Federal Home Loan Bank Board now allows its associated savings and loan companies to lend up to 95% of a home's value, on non-FHA-VA construction. The Federal Home Loan Mortgage Corporation, the Farmers Home Administration, and other agencies also have programs to encourage residential construction. These moves by the government are important structural changes in home financing, reducing its potential for volatility.

Savings and Loans: Although these government fostered programs spurred the housing recovery in 1970, and will continue to augment housing's financial base, Savings and Loans' activity will remain of major importance. Their traditional role as a source of home mortgage financing is shown in Table A. The other financing institutions listed have had the primary interest in FHA and

VA insured loans over the years.

A national recapitulation of trends in savings and a projection through 1972 has been made by Laird, Inc. in their comprehensive and excellent research project, *Building Industry*, as shown in Table B. This estimates a total of \$51 billion savings flow into four principal financial networks, down from the 1971 heights, but ample to finance a strong 1972 year in housing and remodeling.

The effects of high interest rates and competition for funds are clearly depicted in the 1970 "Change" percentages in Table C. Three-fourths of Lowe's stores are served by the Savings and Loan associations in the Fourth District. The 1971 figures indicate the extent of the turnaround in savings flow and consequent loan commitments.

Retail Financing: To finance our growing sales to retail customers of our product line: television sets, carpeting, paneling, even mobile homes; Lowe's has available a larger and more predictable source of funds—America's consumer credit industry. Graph D shows its consistent growth, with installment credit reaching \$100 billion during this last year. A variety of credit plans are offered to our customers, including the Lowe's "Charger" cards from the General Electric Credit Corporation, and Master Charge and BankAmericard. These are on a non-recourse basis, so from the dual standpoints of risk and cash flow, these are cash sales to Lowe's, and provided 7.3% of our total sales, over \$12,000,000 of financing and retail sales support.

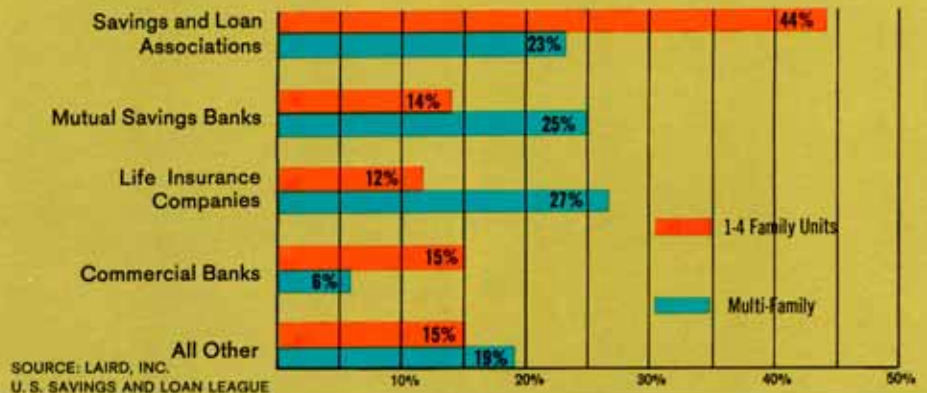
Lowe's "Pro" Customer Financing: We provide interim credit to our professional customers. About 61% of sales were made to contractors, builders, and commercial accounts on credit terms of 30, 60, and 90 days. This percentage is up slightly this year due to higher home building activity. Accounts receivable on July 31 totaled \$20,944,000. We define Accounts Receivable Turnover as total Charge Sales

divided by average Accounts Receivable outstanding. This turnover rate increased from 5.1 times in 1970 to 5.8 times in fiscal 1971, as sales activity increased.

Lowe's Capital Financing: The primary source of funds for expansion of our stores continues to be from operations. As shown on page 36, earnings and depreciation have provided 86% of the total funds available, with long term debt being used for 12.9%. These sources will continue to be important, and proceeds from exercise of employee stock options should provide an additional \$4,200,000 in capital during the next three years, a substantial 13.7% increase over our present net worth.

Our long term debt was increased by \$3,981,000 in 1971. This should be viewed in the perspective as shown by the Equity-Debt ratios on pages 40 through 42. The 1971 ratio of \$4.19 in shareholder equity for every dollar in long term debt closely resembles Lowe's capital structure of most previous years. During fiscal 1969 and 1970, we delayed debt placement, thinking that lower interest rates might be forthcoming. When this did not materialize, and growth opportunities continued to do so, management decided on a return to more normal capital composition through increased debt.

Sources, Home Mortgage Funds Total Outstanding—1968



Savings Flow Trends

BILLIONS OF DOLLARS

	1968	1969	1970	1971E	1972E
Savings & Loans	\$ 7.4	\$ 4.0	\$11.2	\$24.0	\$12.5
Mutual Savings Banks	4.2	2.5	4.6	9.0	5.5
Life Insurance Companies	11.3	8.8	9.0	15.0	11.0
Commercial Banks	20.6	(9.3)	34.8	25.0	22.0
Total	\$43.5	\$ 6.0	\$59.6	\$73.0	\$51.0

SOURCE: ACTUAL, & 1971 & 1972 ESTIMATES: LAIRD, INC.



Savings & Loans Loan Commitment Trends

Fourth Federal Home Loan Bank District
MILLIONS OF DOLLARS*

Month	Lowe's Fiscal 1969			Lowe's Fiscal 1970			Lowe's Fiscal 1971		
	Commitments	Commitments	Change	Commitments	Commitments	Change	Commitments	Commitments	Change
Aug.	\$336	\$331	- 2%	\$ 391	\$ 391	+ 18%			
Sept.	303	307	+ 1%	400	400	+ 30%			
Oct.	322	273	-15%	420	420	+ 54%			
Nov.	308	260	-16%	428	428	+ 65%			
Dec.	307	231	-25%	421	421	+ 82%			
Jan.	342	235	-31%	455	455	+ 94%			
Feb.	378	248	-35%	530	530	+113%			
Mar.	386	266	-31%	705	705	+165%			
Apr.	407	309	-24%	834	834	+170%			
May	434	347	-20%	932	932	+169%			
June	391	379	- 3%	1,025	1,025	+170%			
July	361	392	+ 9%	1,022	1,022	+161%			

*Amounts are total month-end commitments of federally-insured savings and loans associations in Alabama, Georgia, Maryland, North Carolina, South Carolina, Virginia and the District of Columbia, where 98 of Lowe's 75 stores are located. Federally-insured savings and loans activity approximates 87% of all savings and loans.

Consumer Credit Trends

BILLIONS OF DOLLARS



Merchandise Producers

LOWE'S SOURCES AND RESOURCES

A Fisher stereo component, a new product line which typifies our improving brand line and quality.

The plaque for Brand Name Retailer of The Year, an important milestone in national recognition.

Dale Brannock, our Senior Purchasing Agent for Lumber and Plywood, "wired direct" to the West Coast.

A typical view of outside storage at each Lowe's store, with ample inventories.

Owens Corning fiberglass insulation in a Lowe's warehouse in preparation for the autumn sales surge.

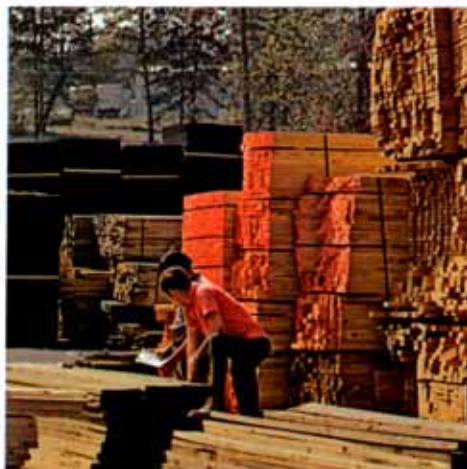
General: At Lowe's we manufacture nothing. Consequently, a fundamental requirement for success is a continuing availability of quality merchandise at the right price, at the right place, and at the right time. Over the years a network of suppliers has been evolved whose productive capacity for merchandise of quality and value constitutes a massive resource and major asset to Lowe's. Shown in the chart are major source points for products in our operating area.

Purchasing: Robert E. Black, Director of Lowe's purchasing department, puts it this way: "The advantages of selling a well-known, nationally-advertised, top-quality product are quite obvious. From a purchasing viewpoint, the advantages of buying from these types of manufacturers are not so readily apparent, but are of equal importance.

Lowe's volume of purchases and the lead times required by our long-range planning, necessitate buying from major suppliers who have the physical facilities, financial resources, long-range production scheduling, multi-manufacturing and shipping points, display material and literature, advertising and promotional programs, sales training programs, after-sale parts and service arrangements, necessary to serve Lowe's growth".

Lowe's Supplier Network: These factors incline Lowe's towards major suppliers, with national organizations. Our growing sales volume and their desire for a "piece of the action" has facilitated these connections in recent years, and the roster of our manufacturing sources reads like an excerpt from Fortune's top 500 list.

Abitibi, Alcoa, American Machine & Foundry, Armstrong Cork, Bethlehem Steel, Black & Decker, Boise-Cascade, Borg-Warner, Celotex, Certainteed, Fedders, Fisher, General Electric, Georgia-Pacific, Hotpoint, International Paper, Masonite, National Gypsum, Owens-Corning, RCA, Skil, U.S. Gypsum, U.S. Plywood, Weyerhaeuser, and Zenith





are only a few of our larger suppliers.

Certain of our other manufacturing sources are probably not as well known by the general public, but are eminent in their field. These include the Croft Metal Company, leader in pre-built aluminum building products, Modern Maid, a top independent supplier of built-in kitchen appliances, State Stove, Federal Lighting, and Philip Carey. A third group makes up an essential sub-section of our supplier network. These are the hundreds of smaller regional producers and distributors who provide specialty merchandise on a custom order basis.

Continuing our efforts to maintain a high level of mutual confidence and cooperation between ourselves and our suppliers, our buyers are making more personal visits to manufacturers and distributors than ever before. Besides seeing new products, and inspecting facilities, their objective is to structure a relationship as mutually satisfactory long range business partners.

With the increasing demands of the building boom, many products will be in short supply with extended delivery periods, thus reliable supplier relations will be more vital than ever. We anticipate continuing to receive our share of the goods, due to our supplier network.

Merchandise Trends: Certain major trends in our product lines should be noted.

First, we have increased the depth of our inventories to reduce out-of-stocks and to serve customers better. Also, we are expanding our product selection, both in consumer goods such as component stereo and mini bikes, and in building supplies such as central air conditioning and Homestead house materials. Our merchandise line is being further refined as plastics, fiberglass, and vinyl become more important building materials. Finally, there are the "Lowe's-It-Yourself" products that really are easy for the average homeowner to install with household tools and achieve good results.



Suppliers of Services

LOWE'S SOURCES AND RESOURCES

Teletype: In this electronic world of "global villages", "instant replay", and television programs from the moon, nothing is more important to management than a rapid, accurate method of communications. The heart of Lowe's intracorporate system is a closed circuit Teletype from American Telephone and Telegraph. Each of our 75 store offices has a teletype console, providing virtually instantaneous communication with Lowe's General Office and other stores on the circuit.

Among the thousands of daily Lowe'sgrams that zip between our stores are price changes, sales reports, merchandise requests, market changes, and product information. Approximately 19,000 radius miles of leased line wires are traversed every time each store sends one message to our teletype control center at the General Office. Also, for increased inter-store message capacity, there are six sub-circuits with 3,600 miles of line connecting the store circuit perimeters. We have utilized this system for sixteen years, and teletype's combination of speed, and printed copy for accuracy and reference, provides another major asset for the company.

Telephone: Phone also continues to thrive at Lowe's. Besides its obvious general usages, it has become the single most important medium to our professional sales force who serve the professional market. An ever growing portion of our sales volume is written from telephoned orders, saving time for customer and salesman alike.

We are testing more sophisticated applications of telephone usage, including tape recorder attachments for after hours orders, and long distance Xeroxing of purchase orders to manufacturers, layouts of advertisements, and other uses.

Computers: A continuing phenomenon is the rapid increase in the development and influence of computers and the science of cybernetics. Lowe's attitude toward

computers is not one of sociological apprehension—we can always unplug them—but rather to utilize them for control, growth, and profitability.

Lowe's data processing system has been acclaimed as the most sophisticated in use by a mass merchandiser since its inception in 1956. Beginning with a basic foundation in inventory control, sales analysis, and costing, the central system has been expanded into payroll, accounting, budgeting, and forecasting. A significant advance occurred during the mid-60's with the installation of computers on our sales floors to calculate and print each sales ticket and provide other unique services. Currently, we are researching a management information system with an integral data transmission network linking the central computing facility with our specialized in-store computers for data collection and assimilation.

Building on a present combination of an IBM System/360 computer in the general office and IBM 402 and 526 accounting machines in each store, we are planning simultaneous expansion and refinement of data entry and computing facilities. Through a new Honeywell Keyplex system providing direct data entry onto magnetic disk storage and the planned addition of video screen terminals in control areas of the general office for direct access and data entry into the central computer, we will improve the currency and accuracy of information used as a basis for management decision-making.

With our sixteen years experience in retail data processing, we will be able to coordinate the present system with the new data entry equipment so as to facilitate addition of a second main-frame computer to handle growth to 150 or 200 stores. Additional specialized computers for the data transmission network and data entry terminals will be added as we continue the sophistication and refinement of this unique communication system for management control.

Transportation: From the massive weight and bulk of the commodity products that constitute a large portion of our sales volume—gypsum board, asphalt shingles, lumber, plywood, and cement—to the smaller packaged products including transistor radios, switch plates, hardware and fittings, a flexible, efficient, and dependable transportation network is vital. From the company's early days in 1946, transportation and the allied fields of packaging and storage have been the subject of consistent study, specialized research, and cost-improving innovations to improve the physical flow of merchandise to the customers.

There are many transportation routings at Lowe's: From the manufacturer directly to the customer; from the manufacturer directly to Lowe's stores, thence to job-site or customer's home, delivered either by Lowe's fleet of trucks, or by customers' own vehicles; or to Lowe's stores via Lowe's concentration warehouse in North Wilkesboro. Weight and quantity of order are the basic variables in determining the most economical routing of shipments.

When total delivery from our stores is added to incoming shipments, trucks are our most important transportation system, with railroads a strong second. Imports, and cargo lumber from the West Coast are increasing the significance of ocean freight to Lowe's, particularly so as we have opened stores along the Atlantic seaboard.

Good advice and good equipment from such specialists in the field as Clark, Hyster, and White in forklifts, Ford, Strick, and Great Dane in trucking equipment, Colson and Towveyor in conveyors, aid us in keeping our transportation network fast and efficient.

Outlook: We are forecasting that our customers' demands for services will continue to increase, both in quantity and in sophistication, for a continuing challenge and opportunity for Lowe's.

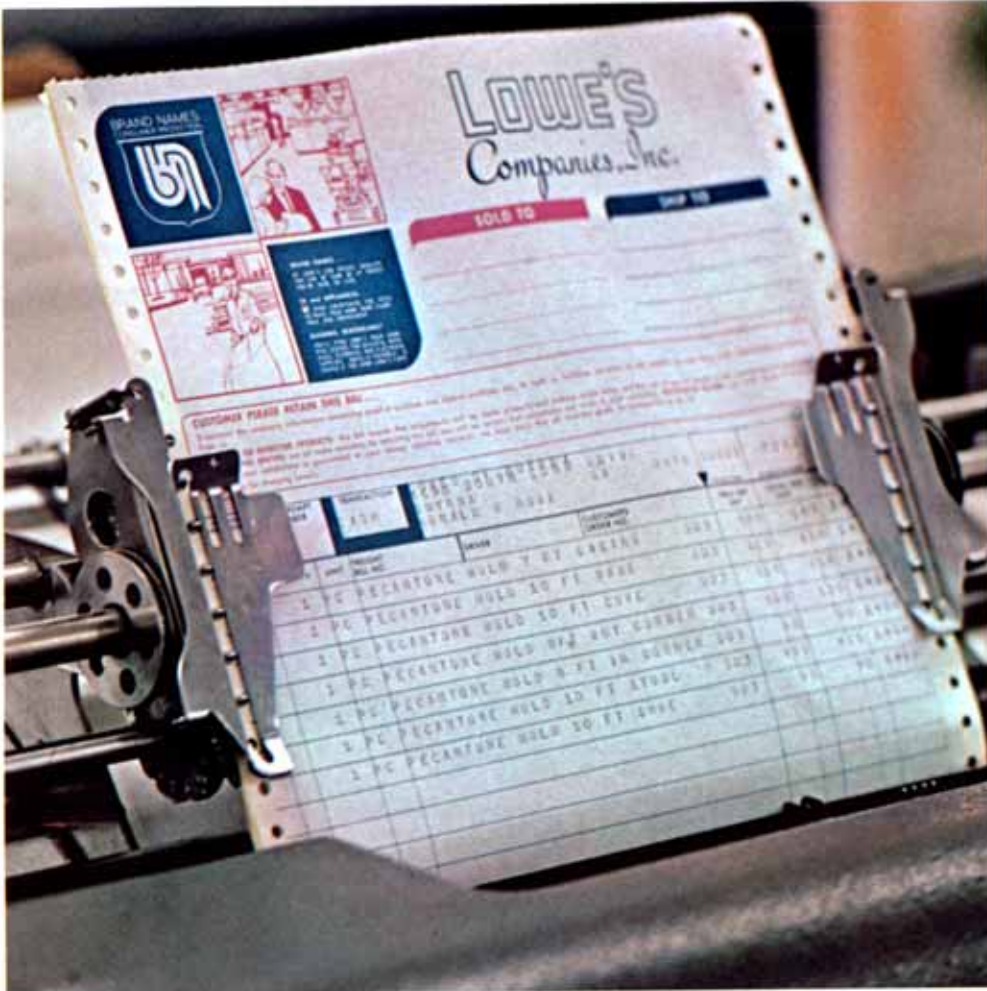
The computer on a Lowe's sales floor, printing a legible, accurate sales ticket in moments.

Symbolic of a key increment of Lowe's transportation network—efficient rolling equipment and the highway system.

The Keyplex inputs of Minneapolis Honeywell, a significant 1971 addition to Lowe's computer system.

The Teletype Control Center at Lowe's General Office, linked to each of the 75 Lowe's stores.

Typical of the specialized labor-saving machines at each store are the workhorse fork lifts.



Lowé's Customers

LOWE'S SOURCES AND RESOURCES

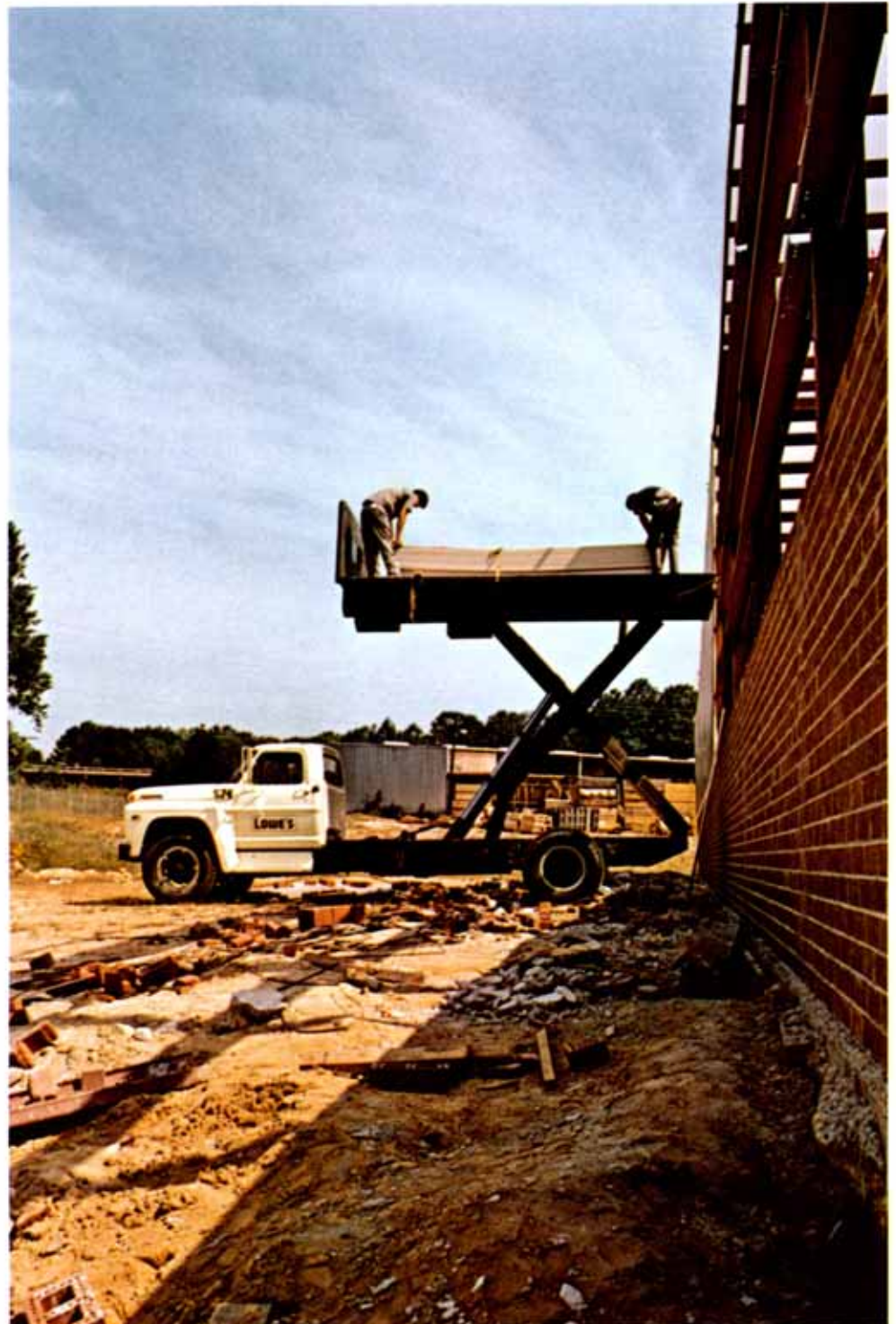
A Lowe's job-site delivery team, utilizing the specialized equipment necessary for efficient customer service.

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

Professional Buyers: We define professional buyers as those who purchase the products we sell in the course of their business, for non-personal use. Included in this group are home builders, developers, contractors, carpenters, electricians, painters, plumbers, and industrial and institutional purchasing agents. Within the 75 basic marketing areas served by the present Lowe's stores, these professional buyers number approximately 90,000. About one-third of this number are Lowe's customers for at least a portion of their professional buying needs.

In a recent professional customer survey, interesting comments were made. Joe Griffin of Sumter said, "Just keep the material on hand, and I will do the buying." Jack Draim said "I have built houses for 20 years, and Lowe's of Morristown was the first to send a man out to my house to see if everything was all right." There were suggestions for improvements in various areas, and of course a few complaints. Most of these were made in a constructive manner indicating additional latent business potential, when we "shape up"!

Retail Customers: Our retail customers are primarily home owners or "householders", buying for personal or family use. Since



Holidays, weekends, and evenings are popular shopping times for our retail customers to browse and to buy.

Lowe's professional sales force serves customers in the store, over the telephone, and in the field.

our merchandise line is composed basically of products for home building and remodeling, home furnishing and entertainment, lawn and garden and outdoor living, then the number of households in each Lowe's market provides the best census of marketing opportunity. The present basic 75 store marketing areas serve just under 4,000,000 households, an average of 53,000 for each store market area.

Customer Sales Profile: Table A on this page presents the customer sales profile of retail building material dealers on a national and regional basis. These two different surveys by leading trade publications reached virtually identical conclusions as to national customer mix in 1968. *Building Supply News* found a growth in the consumer portion and a slight decline in professional business during recent years. The *Building Material Merchandiser* regional survey shows how the customer percentages change as sales volume per store increases.

Lowe's Customer Sales: Table B is a five year recap of Lowe's sales to these two major customer groups. Although sales to professionals have been depressed by the housing market decline during this period, 61% of our 1971 sales volume came from this source. Retail volume has had a higher growth rate during these years, increasing from 29% to 39% of the total. A comparison of these percentages with those of Table A shows that Lowe's has a broader retail customer base than the typical dealer in our volume category, 39% versus 26.5%. (Lowe's average annual sales volume for established stores was \$2,530,000 in 1971). The primary reasons for this are our wider line of retail products, our specialized sales force, better retail locations and product display, and an experienced and aggressive advertising and merchandising effort. Our objective is to maximize sales to both customer groups during the 1970's.



Customer Sales Profile, Building Material Dealers A

	United States*			South Atlantic Region, 1968**				
	1965	1968	1970	U.S. Weighted Averages	Weighted Averages	Up To \$500,000	\$500,000 to \$3,000,000	Over \$3,000,000
Building Professionals	% 43.3	42.4	41.3	42.6	52.1	46.3	60.4	63.4
Industrial & Commercial	% 10.3	11.3	11.2	10.8	11.7	10.9	13.1	11.7
Total Professional	% 53.6	53.7	52.5	53.4	63.8	57.2	73.5	76.1
Retail Consumer	% 46.4	46.3	47.5	46.6	36.2	42.8	26.5	23.9
	100	100	100	100	100	100	100	100

*FROM BUILDING SUPPLY NEWS

**FROM BUILDING MATERIAL MERCHANTISER

Customer Sales Profile, Trends at Lowe's B

	1966		1967		1968		1969		1970		1971		5 Year Sales C.G.R.*
	Sales	%	Sales	%	Sales	%	Sales	%	Sales	%	Sales	%	
Professional	\$54,720	71	\$50,445	67	\$63,930	66	\$79,760	67	\$75,100	58	\$104,050	61	13.7%
Retail Consumer	22,320	29	25,255	33	33,100	34	39,290	33	53,400	42	65,670	39	24.0%
Total	\$77,040		\$75,700		\$97,030		\$119,050		\$128,500		\$169,720		17.1%

ROUNDED FIGURES, THOUSANDS OF DOLLARS.
PERCENTAGES ROUNDED TO NEAREST WHOLE %.

*COMPOUND GROWTH RATES

Lowe's Stockholders

LOWE'S SOURCES AND RESOURCES

Lowe's stock being quoted by various "market makers" on the new NASDAQ video terminal, in the offices of the Robinson-Humphrey Company.



Stock Offerings: There have been two offerings of Lowe's stock by the company's Profit Sharing Trust. Details of the original 1961 offering may be found on page 33. Until January, 1971, the Profit-Sharing Trust had continued to retain all its remaining shares, the total having grown to approximately 1,900,000 shares due to two 100% stock dividends. During 1970, the Investment Sub-committee of the Profit-Sharing Trust recommended a secondary public offering of Lowe's common stock, to assist it in meeting obligations to retiring employees, and to afford greater diversification of investments. Again, G. H. Walker & Co. was the manager of the underwriting, and formed a national syndicate of leading investment banking firms. 400,000 shares were underwritten and sold on January 26, 1971, with good market response.

Market: The stock is traded fairly actively over the counter (O-T-C). Prices are quoted by the National Association of Securities Dealers (N.A.S.D.) and published daily in the Over-The-Counter Markets section of various financial publications. The O-T-C market is a large, decentralized, negotiation type market, with at least 26,000 common stocks being traded. Lowe's was one of the initial 2,500 stocks selected by the N.A.S.D. to be quoted on NASDAQ, a new computerized quotation network. In a survey of August 31, 1971, in *Over The Counter Securities Review*, Lowe's ranked 50th in market value among all O-T-C stocks in the nation. In a *Barron's* article, Lowe's was listed in 11th spot in market value of O-T-C stocks held by institutional investors.

Exchange Listing: In reply to many questions about listing on the New York Stock Exchange, we have not made a decision to seek a listing there. Good arguments can be made on both sides of the question, and we've heard and discussed many of them. With the advent of NASDAQ, versus the changes which may be forthcoming to the Big Board as a

Messrs. D. V. Deal, G. E. Cadwgan, L. L. Rice, L. C. Herring and W. H. McElwee, concluding the January, 1971 stock sale. Mr. Herring is Trustee of Lowe's Profit-Sharing Plan.

result of recommendations by the Martin committee and others, we are maintaining an open mind on the subject.

Communication: Since 1961, Lowe's management has believed in growth, and has attempted both to communicate this story to its stockholders and to translate this policy into action and a sustained growth record in sales and earnings. Based on our research, proxy tallies, and other channels, we believe that most of our stockholders agree with management's policies. An open door policy to all security analysts and their penetrating questions has been of continuing value to Lowe's. Lowe's 1970 Annual Report has received an "Oscar of Industry" award from *Financial World*, for excellence in management-stockholder communication, our fourth in three years.

Stockholder Composition: The number of stockholders increased about 16% this year to 2,463 from 2,117. An additional 600 to 700 are in nominee accounts of various brokerage firms. Our stockholder geography is shown in the table at right. 65% live in the twelve states where we operate stores, and the group includes many suppliers, employees, and customers — those who know us best. However, 41 of the 50 states, D.C. and Puerto Rico, and 5 foreign countries are represented. Lowe's Profit Sharing Plan and Trust continues to be the largest stockholder, with approximately 1,467,000 shares. Thus each Lowe's employee has a direct interest in our continued growth and profitability.

Stockholder Survey: We appreciate your participation in our yearly surveys of stockholders. We read every word of your replies, and many suggestions have been incorporated into our format of quarterly and annual reports. The results of last year's questionnaire are summarized in the table at right. Almost 25% of you responded to this survey, and this broad sample gives confidence in these interesting facts and opinions.



Stockholder Census		
	Holders	Shares
Alabama	9	4,139
Arizona	4	421
California	28	5,613
Colorado	4	500
Connecticut	55	63,495
Delaware	13	1,209
District of Columbia	28	15,811
Florida	34	12,293
Georgia	42	8,942
Illinois	54	87,366
Indiana	6	363
Iowa	2	10
Kansas	3	2,011
Kentucky	9	1,113
Louisiana	3	481
Louisiana	1	100
Maine	70	132,133
Maryland	71	221,075
Massachusetts	21	3,814
Michigan	20	62,281
Minnesota	12	2,072
Mississippi	37	33,674
Missouri	1	400
Nebraska	1	40
New Hampshire	46	11,321
New Jersey	1	68
New Mexico	230	935,108
New York	1,099	784,044
North Carolina	35	7,193
Ohio	13	7,690
Oklahoma	9	806
Oregon	53	7,780
Pennsylvania	72	44,922
Rhode Island	83	18,864
South Carolina	1	100
South Dakota	56	24,485
Tennessee	19	15,685
Texas	1	6,000
Vermont	149	70,731
Virginia	7	4,467
Washington	13	1,551
West Virginia	38	41,236
Wisconsin	2	501
Canada	1	400
Puerto Rico	1	200
Mexico	1	40
Netherlands	1	40
Switzerland	1	40
England	3	900
Subtotal	2,462	2,742,768
Employees' Profit Sharing Trust	1	1,466,791
Total	2,463	4,209,559

Stockholder Survey

1 Interest in Lowe's as a:	
Shareholder	80.9%
Security Analyst	1.3%
Financial Advisor	2.6%
Stockbroker	4.7%
Financial Press	1.3%
Lowe's Employee	6.3%
Other	2.6%
2 Gender of Shareholders:	
Male	81.8%
Female	15.0%
Corporate or Joint Ownership	3.1%
3 Age Group Breakdown:	
Below 25	4.2%
25-34	11.2%
35-44	18.9%
45-54	22.6%
55-64	27.4%
65 and over	15.4%
4 Length of Ownership in Lowe's:	
1 year	10.8%
1-2 years	9.5%
2-5 years	24.9%
5 or more	54.6%
5 Method of Stockholder Awareness:	
Stockbroker	38.8%
Lowe's Employee	16.9%
Annual Report	2.3%
Media Article	8.4%
Other	33.3%
6 Best Liked Portion of Report:	
15 year Review	23.6%
Chairman's Letter	9.5%
Narrative Section	6.9%
Graphs & Charts	11.8%
Executive Committee Report	10.0%
New Dimensions	17.8%
Financial Statements	10.6%
Other	2.3%
All	7.2%
7 Reading of Report:	
Cover to Cover	43.5%
Almost Every Page	27.9%
About Half	9.4%
Highlights	15.5%
Quick Glance	3.2%
Didn't Read Any	2%
8 Opinion of Report:	
Excellent	75.4%
Good	21.8%
Average	1.6%
Marginal	5%
Unsatisfactory	5%
9 Satisfaction of Shareholders:	
Satisfied	90.8%
Moderately Satisfied	7.7%
Moderately Dissatisfied	2%
Dissatisfied	2%
No Opinion	8%
10 Rating of Lowe's by Shareholders:	
Up With The Times	91.7%
About Average	7.1%
No Opinion	1.0%
11 Appropriate Attention Received on Comments, Suggestions, Etc.:	
Yes	62.9%
No	1.9%
No Opinion	45.0%
12 Do Shareholders Receive Sufficient Information:	
Yes	90.1%
Not Entirely	7.6%
No	2.1%
13 Investment Objectives:	
Capital Appreciation	71.7%
Dividend Income	8%
Both	25.0%
No Opinion	2.4%

Population and Growth

THE 1970's/NEW DIMENSIONS... NEW PERSPECTIVES

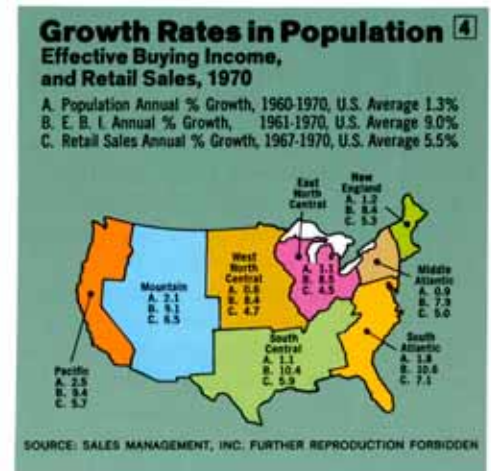
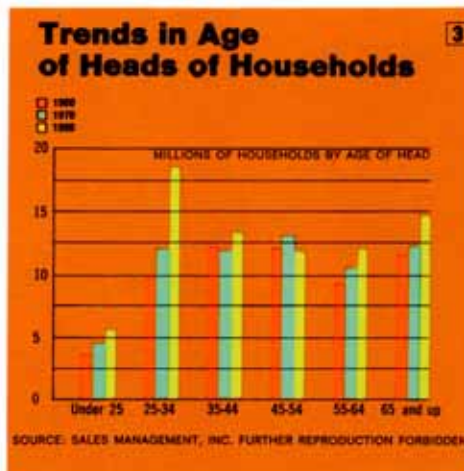
General: In these next four pages, we summarize our marketing research information on the fundamental market dimensions of Lowe's opportunity for growth. These basic factors are people, money, housing, and retailing. We believe this overview will help you "position" Lowe's in the economic mainstream of the nation, giving you a clearer perspective of Lowe's growth possibilities.

Population and Households: Chart 1 is a census and projection of population, households and families through 1980. Since our product line and merchandising efforts have primary orientation to homes, home builders, and homeowners, households are a principal measure of marketing opportunity. Therefore the 20% increase in households forecast by 1980 indicates solid growth potential. Chart 2 examines the factors behind the trends in household formation, with marriages and net increase in households growing more smoothly than the 21 year old population.

Note that the total population is expected to grow by only 11% by 1980. This forecasts a drop in people per household from 3.2 to 2.9.

Age Trends: A significant change in age of household heads is projected in Chart 3, with the 25 to 34 age group becoming the dominant group of householders during the '70's. We can be sure that their style of living will be different, affecting marketing opportunities. We anticipate that the pace of change will quicken in the products and services we offer.

Regional Characteristics: 73 of 75 Lowe's stores are located in the Southern Region, 62 in the South Atlantic division, and 11 in the East South Central. Chart 4 lists annual growth rates in Population, Effective Buying Income, and Retail Sales. In five of six of these measures, the growth rate of the Lowe's marketing areas far surpasses the national rates. Chart 5 lists totals, and shows that the South also has a more youthful population.

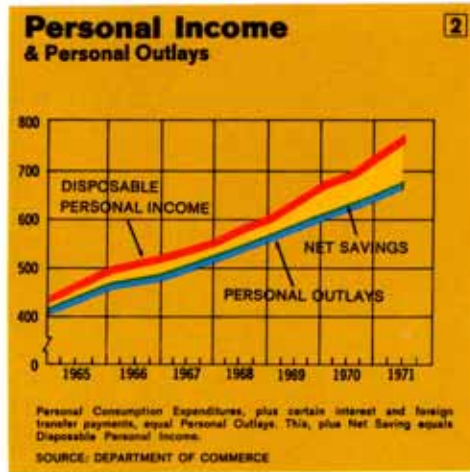


Regional Demographics, 1970

	Population (000,000)	Effective Buying Income (000,000)	Retail Sales (000,000)	Age Groups: % of Total				
				0-17	18-24	25-34	35-49	50 & Up
New England	11.8	\$ 42.6	\$ 21.9	33.0	12.0	12.1	17.0	25.9
Middle Atlantic	37.3	139.6	66.6	32.0	11.2	12.4	17.9	26.5
South Atlantic	31.0	92.1	51.9	33.6	12.7	12.8	17.0	23.9
East South Central	12.9	32.4	18.7	35.0	12.2	12.0	16.4	24.4
West South Central	19.6	56.3	32.3	35.2	12.5	12.5	16.3	23.5
Mountain	8.4	24.9	14.6	36.4	12.7	12.9	16.4	21.6
Pacific	26.9	98.3	51.3	33.0	12.8	13.7	17.4	23.1
West North Central	16.4	52.5	30.3	34.1	11.6	11.7	16.2	26.4
East North Central	40.5	139.4	73.3	34.9	11.8	12.5	16.9	23.9
United States	205.0	\$678.2	\$360.9	34.8	12.0	11.9	17.4	23.9

SOURCE: SALES MANAGEMENT, INC. FURTHER REPRODUCTION FORBIDDEN

Money and Spending



Gross National Product: During 1971, the nation has achieved a long awaited goal—a trillion dollar economy. Chart 1 portrays the growth record of our GNP and also indicates the concurrent growth pattern in Personal Consumption Expenditures, historically more than 60% of GNP and moving toward the \$700 billion level.

Personal Income and Saving: We hope the definitions printed with Charts 1 and 2 clarify some of these similar sounding terms. Disposable Personal Income growth is shown in Chart 2. Also shown is the increment of personal savings, running at an unprecedentedly high rate for the last twelve months. This savings rate cuts both ways at Lowe's. It has swelled Savings and Loan deposits for a favorable effect, but it has dampened purchases of consumer durables. On balance, the effect has been positive for Lowe's.

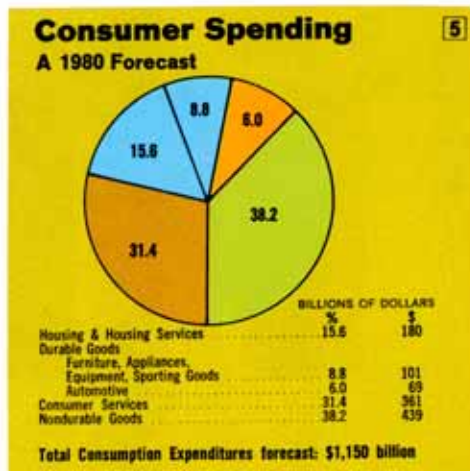
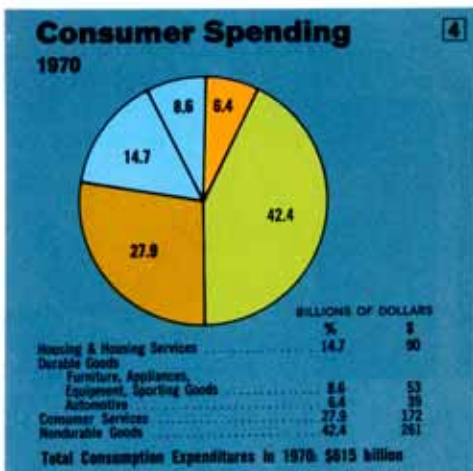
Personal Income Disposition Trends

	1960	%	1965	%	1970	%	1971*	%
Non Durable Goods	\$151.3	44.2	\$191.1	41.4	\$264.7	39.5	\$279	38.6
Durable Goods	45.3	13.2	66.3	14.4	88.6	13.2	100	13.9
Services	128.7	37.6	175.5	38.0	262.5	39.2	281	38.9
Total Personal Consumption Expenditures	\$325.3	95.0	\$432.9	93.8	\$615.8	91.9	\$660	91.4
Savings	17.0	5.0	28.4	6.2	54.1	8.1	62	8.6
Total	\$342.3	100.0	\$461.3	100.0	\$669.9	100.0	\$722	100.0

SOURCE: ECONOMIC INDICATORS

*Latest Rate

Income Disposition Trends: Chart 3 details the growth in dollars of Personal Consumption Expenditures and Savings during the 1960's, and the varying percentage trends of the major spending components. Non durable goods were up 75% in dollars from 1960 to 1970, but down from 44.2% to 39.5% of the total, and down further in 1971. Durable goods dollar purchases increased 96% during the ten years, and its percentage of total is increasing again in 1971. Spending for Services increased 104% in the decade, and demand remains strong. Savings dollars were up a whopping 218% from 5% of total to 8.1%.



Consumer Spending: Chart 4 presents a slightly different division of the components, totalling \$615 billion in personal consumption expenditures. Chart 5 forecasts a 1980 total of \$1,150 billion, an 87% increase, but exceeded by the projected 125% increase in Lowe's marketing sectors of Housing and non-automotive Durable Goods to a total of \$281 billion.

Construction and Housing

THE 1970's/NEW DIMENSIONS . . . NEW PERSPECTIVES

Construction Spending: National trends in construction spending are shown in Chart 1. During 1971, the total spending rate has passed the \$100 billion level, back again to about 10% of the Gross National Product. A comparison of this chart line with the smooth growth of GNP line on the previous page indicates the effect of tight money on this industry. The declines in 1966-1967 and 1969-1970 are obvious. Page 8 discusses financial structure changes which will help alleviate this problem in the future. Trends in private and public construction are also shown in Chart 1.

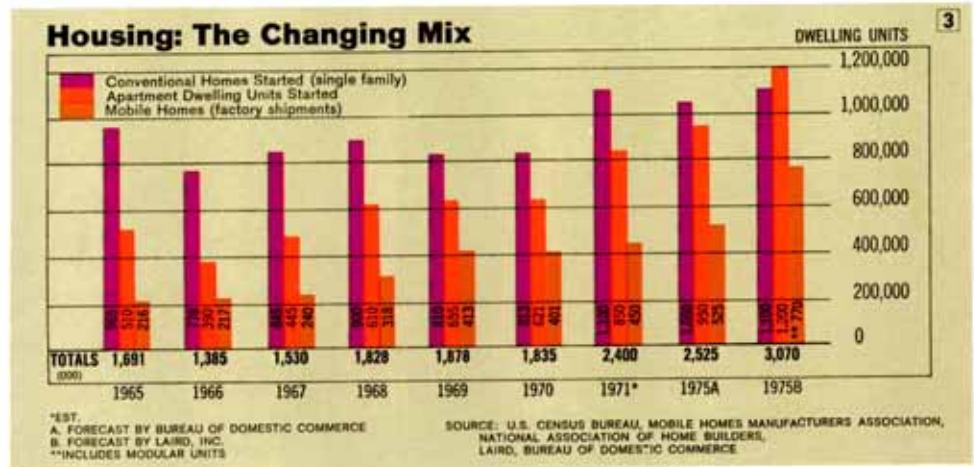


Construction Spending Components BILLIONS OF DOLLARS

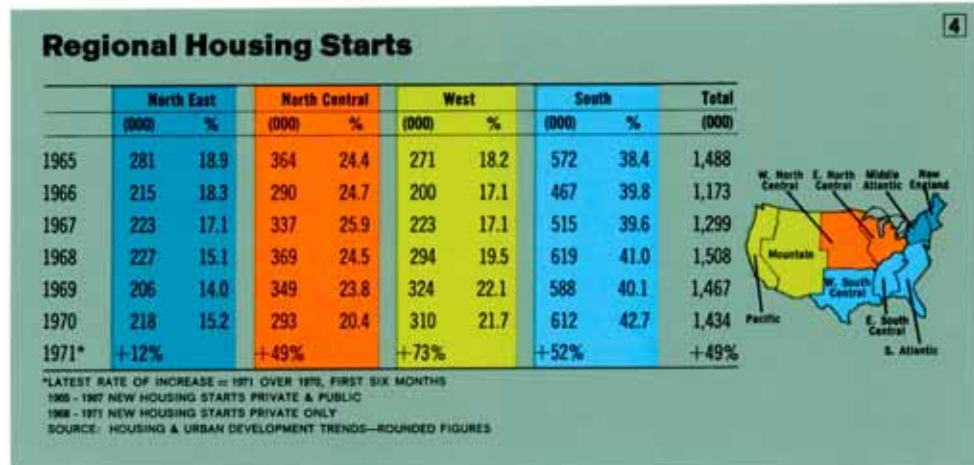
	1965	1966	1967	1968	1969	1970	1971*
A. Government	\$22.1	\$24.0	\$25.6	\$27.7	\$28.1	\$28.2	\$ 29.3
B. New Housing	20.4	18.0	17.9	22.4	23.7	21.9	31.5
C. Remodeling**	5.9	6.0	5.8	6.4	6.9	7.4	7.5
D. Commercial Industrial	11.9	13.6	13.1	13.9	16.5	16.5	18.1
E. Other	12.1	13.6	13.7	14.2	15.7	17.4	18.4
	\$72.3	\$75.1	\$76.2	\$84.7	\$90.9	\$91.3	\$104.8

*ANNUAL RATE, JUNE, 1971
 **This is understated, apparently due to the statistics-gathering methods used. Total Remodeling is estimated by the trend line figures shown.

Spending Components: Chart 2 presents totals of the major components of construction spending and the changes from 1965 through 1970, with "going rate" figures through June, 1971. A study of these figures reveals that New Housing has been the most volatile performer—dollar spending declined in three of the seven periods, 10% in 1966 alone. Its percentage of the total also varied substantially. However, the 1971 figures indicate almost a 50% increase in dollars over 1970, reaching 30% of total construction spending. The other components have grown in a much more stable pattern during these years.



The Housing Mix: Chart 3 shows growth. The 2,000,000 annual level of starts is here. Conventional single family residences are projected for a 35% increase in 1971, achieving the 1,000,000 level. Apartment units have a 36% increase forecast for 1971. Mobile home estimates have a 12% increase. Lowe's is active in each of these market segments, with single family units of most importance to sales and profits.



Regional Housing Starts: The economic vitality of the South is further indicated in Chart 4. Its percentage of the nation's housing starts is large and growing.

Retailing and Competition

United States Retail Store Sales 1

MILLIONS OF DOLLARS	1965	1968	1969	% Change	1970	% Change	1971	% Change*
Food Group	\$ 64,016	\$ 72,881	\$ 75,866	+4	\$ 81,466	+7		+ 5
Eating & Drinking Places	20,201	25,285	25,849	+2	27,872	+8		+ 3
General Merchandise	42,299	54,493	58,615	+8	62,867	+7		+11
Apparel Group	15,765	19,265	20,158	+5	20,396	+1		+ 4
Furniture & Appliance Group	13,352	16,540	16,719	+1	16,817	+1		+ 1
Automotive Group	56,884	65,261	66,911	+3	62,847	-6		+13
Gasoline Stations	20,611	24,526	25,116	+2	26,504	+6		+ 2
Drug & Proprietary Store	9,186	11,458	11,863	+4	12,750	+7		+ 6
Liquor Stores	5,674	6,969	7,403	+6	8,060	+9		+ 8
Lumber, Building Material Hardware & Farm Equipment Group	17,101	19,129	19,246	+1	19,667	+2		+11
Durable Goods	94,186	110,245	112,779	+2	109,694	-3		+10
Nondurable Goods	189,942	229,079	238,854	+4	254,877	+7		+ 6
United States—Total	\$284,128	\$339,324	\$351,633	+3.6	\$364,571	+3.6		+ 7

*PERCENT INCREASE 8 MONTHS 1971 VERSUS 8 MONTHS 1970.
NOTE: U. S. & GROUP TOTALS INCLUDE KINDS OF BUSINESS NOT SHOWN SEPARATELY.
SOURCE: RETAIL TRADE, U. S. DEPARTMENT OF COMMERCE/BUREAU OF THE CENSUS

Retailing: One of the more difficult questions to answer from people who have never visited Lowe's is "What kind of stores are they?". The answer is complex because our stores perform many functions in a unique blend. We have said they are a combination lumber yard, building material supplier, appliance and hardware dealer, and hard goods discounter. These figures on America's retailers may help clarify the size and shape of the retail market we serve.

Retail Volume: Table 1 presents total retail store sales in the United States from 1965 through 1970 with latest rate changes through June, 1971. This is a giant industry whose 1970 totals were equivalent to 37% of G.N.P., and 59% of personal consumption expenditures. The size of the various components may be seen, along with recent growth rates. Lowe's fits logically, but only partially, in the Lumber and Building Material Group, due to our wide product line.

Regional Trends: Shown in Table 2 are sales of selected store groups by region with recent trends therein. Here also the size and growth of the Southern region in which we operate is impressive. The 26% increase in 1971 in the Lumber and Building Material Group surpasses all other growth rates shown.

Pertinent Groups: A more detailed breakdown of two of the retail groups is shown in Table 3, listing 1970 sales volume, 1971 growth, and numbers of competitors in 1967 in each category. Lowe's does not really compete with full-line furniture or farm equipment dealers, even though there is some product line overlap. Therefore, the major relevant retailing categories are 1A, 1B, and 2B. This grouping posted sales of \$19,761,000 in 1970, and the 1967 census indicated about 81,000 stores shared this volume. Table 4 provides additional information about building material chain retailing.

Selected Retail Group Store Sales, by Region 2

North East Region						West Region						
1968	1969	% Change	1970	% Change	1971 % Change*	1968	1969	% Change	1970	% Change	1971 % Change*	
All Stores	\$84,105	\$ 87,307	+4	\$ 90,029	+3	+ 4	\$61,083	\$ 63,073	+3	\$ 65,499	+4	+ 8
Food Group	19,755	20,179	+2	21,055	+4	+ 2	13,311	13,606	+2	14,580	+7	+ 6
GAF Group	24,553	25,809	+5	26,906	+4	+ 5	15,171	16,227	+7	17,312	+7	+11
LBHFE Group	3,230	3,205	-1	3,364	+5	+ 5	3,050	3,155	+3	3,242	+3	N/A
North Central Region						South Region						
All Stores	\$99,295	\$101,966	+3	\$105,519	+3	+ 8	\$94,841	\$ 99,287	+5	\$103,524	+4	+ 8
Food Group	19,719	20,731	+5	22,516	+9	+ 5	20,096	21,350	+6	23,315	+9	+ 7
GAF Group	26,185	27,552	+5	28,137	+2	+ 6	24,389	25,904	+6	27,725	+7	+11
LBHFE Group	7,708	7,683	-	7,687	-	+ 3	5,141	5,203	+1	5,374	+3	+26

*PERCENT INCREASE 8 MONTHS 1971, VERSUS 8 MONTHS 1970.
SOURCE: RETAIL TRADE, U. S. DEPARTMENT OF COMMERCE/BUREAU OF THE CENSUS

GAF GROUP COMBINES GENERAL MERCHANDISE, APPAREL, AND FURNITURE GROUPS. LBHFE GROUP IS LUMBER, BUILDING MATERIAL, AND FARM EQUIPMENT STORES.

Pertinent Retail Group Store Sales, & Census 3

	1970	1971 % Change*	1967 Census Number of Stores
1. Lumber, Building Material, Hardware, Farm Equipment Group	\$19,667	+11	69,015
A. Lumber Yards, Building Material Dealers, Paint, Plumbing, and Electrical Stores	11,315	+13	36,334
B. Hardware Stores	3,220	+7	19,339
C. Farm Equipment and Other	5,132	+9	13,342
2. Furniture and Appliance Group	\$16,817	+2	71,264
A. Furniture, Home Furnishings Stores	10,393	-	39,860
B. Household Appliance, TV, Radio Stores	5,226	+5	25,384
C. Other	1,198	+2	6,020
Totals: 1A, 1B, 2B	\$19,761		81,057

*Percent increase 8 months 1971, versus 8 months 1970.
SOURCE: RETAIL TRADE, U. S. DEPARTMENT OF COMMERCE/BUREAU OF THE CENSUS

Building Material Retail Chains 4

	Average Sales Per Store	Average Number of Stores
New England	\$584,940	8.8
Middle Atlantic	677,390	4.5
East North Central	604,940	3.9
West North Central	250,150	8.3
South Atlantic	514,890	7.0
East South Central	679,470	4.7
West South Central	422,350	6.5
Mountain	391,650	6.2
Pacific	605,000	8.6
Average—All Regions	\$451,400	6.3

SOURCE: BUILDING SUPPLY NEWS

Motivation—Growth Dynamics

LOWE'S: HOW WE GROW

Dan Cope, Herman Province, and Ted Gaylor discuss Lowe's Office Management Club, an award for superior performance.

A group of our managers and builder customers, enjoying a Lowe's incentive trip.

The Lowe's Spirit: The most dynamic aspect in our company is the spirit of our people, who are highly motivated with the desire to succeed and to excel. This drive and enthusiasm is noticeable, and characteristic of Lowe's people.

Our Incentive Philosophy: A basic in Lowe's philosophy is Management's belief in incentives. First, we concern ourselves with the working environment and atmosphere, mental and emotional as well as physical, to help each employee enjoy his work and responsibility, and achieve personal satisfaction in a job well done. Our people have confidence that their personal performance is appreciated, and their contribution of loyalty, sincerity and hard work is acknowledged to them.

We prefer to employ young aggressive people who show qualities of enthusiasm and an attitude that will assist in the growth and prosperity of Lowe's. Our policy is to promote from within, and our people know that they have an opportunity to grow professionally and financially and will not be overlooked when Lowe's growth creates new job opportunities. During 1971, this growth provided 55 new jobs in management in the 11 new stores alone, plus additional opportunities in regional management and the general office. 90% of these management jobs were filled by promoting from within.

Money: Still No. 1: Money, and the opportunity to earn a lot more, is the foundation for our motivational program. We pay all employees by the week; salesmen are paid weekly commissions; and for superior performance, we pay a quarterly bonus. For achieving company goals, budgets, and objectives, annual bonuses are paid. Incentives of every type are in constant use throughout the year, including contests, new cars, trips, and awards. These incentives lend zest and enthusiasm to the accomplishment of our corporate objectives.

With salary as our short term financial incentive, management has extended its



stock option program deeply into the ranks of key profit producers in the company—store managers, office managers, merchandise managers, warehouse managers—giving them additional medium range incentive to increase the profitability of Lowe's.

The long range incentive par excellence at Lowe's is the Profit-Sharing Plan and Trust, discussed on pages 24 and 25.

Lowe's Hootenanny: In 1963, Lowe's held its first Hootenanny sales meeting. Two hundred people attended, wearing overalls, straw hats and bandannas. The enthusiasm and results from this meeting began a precedent which has lasted nine years.

Saturday night is fun night. A giant reunion, where prevails a spirit of friendship, of a big family gathering that many observers say is typically and uniquely Lowe's. For above the entertainment and instruction, there is the feeling of belonging to a winning team and every person present knows the Hootenanny comes on the heels of another "Good Year" he has helped to make; and each is thoroughly optimistic that the Hootenanny is also the forerunner of an even better year!

Sunday is for business. New product lines such as the Homestead Packaged Home are introduced. Results from the past year are discussed and budgets for the coming year are reviewed, and best of all, the new incentives are announced. Everything from \$25.00 sales bonuses, to automobiles, to grand trips to Las Vegas, Hawaii and Europe is used as an incentive to achieve our goals and keep Lowe's moving as the most successful company of its type.

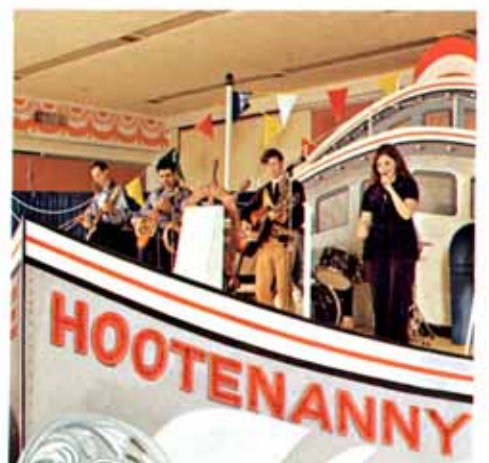
In Summary: We pay money, we promote from within, and we establish creative incentive plans through all facets of our company. Yet with all these motivational things going for us, it is still the self-starters, the self-motivated people who become the leaders at Lowe's.

With Lowe's growth, two Hootenannies were required in 1971. The theme was nautical and the costumes were colorful.

Some customers said these costumes were unusually appropriate!

John Walker welcomed the group to the meeting.

Lowe's store personnel provided the musical entertainment.



Motivation — Profit-Sharing

Dwight Pardue, President, Profit Sharing Administrative Committee, presenting check to Ferroll Bryan, retiring warehouse and delivery man.

Richard Hauser, former Lowe's purchasing agent, now a supplier, and stockholder through Profit Sharing.

A voluntary withdrawal provision was adopted in 1971, enabling Lowe's people, like the Arnold Lakeys, to receive Profit Sharing funds while still employed.



Background: Lowe's uniquely successful Profit-Sharing Plan and Trust was announced in 1957. Its acquisition of Lowe's stock is detailed on page 33.

Membership: Every employee with six months service is eligible for membership. Each year, if the profit center to which he is assigned achieves the profit objectives set by management, an amount equal to 15% of his annual compensation is contributed to the Trust in his name. This significant program gives each employee an individual sense of ownership responsibility and participation in the long term advantages of creative capitalism. A substantial financial base has been earned by many employees.

Shareholder Interests: A new study, *Does Profit Sharing Pay?*, from the Profit Sharing Research Foundation ably and convincingly details the reasons shareholders should prefer profit sharing companies. We quote: "What we need today are organizational incentives—programs which can simultaneously motivate and unite all factors contributing to corporate growth—stockholders, management, and employees. Profit sharing is multi-motivational because it focuses attention on a common goal—increased profits—and rewards all factors".

The study compared financial performance of retailers with and without profit sharing. There were 8 profit sharing companies, including Sears, Penney, and Macy; and 6 non-profit sharers, including Allied, May, and Marshall Field. The study conclusion: "On all measures of significance to stockholders, the profit sharing group outperformed the non profit sharing group by substantial margins"

The adjacent charts, from the study, show the difference. Profit sharing people produce more profit per employee, more return on investment and more profit on sales. This results in higher earnings per share, dividends, and market value.

Lowe's performance corroborates this. Profit sharing boosts profit ability.



Profit Sharing voluntary withdrawal can provide funds for college tuition for children of employees, such as Vicky Osborne here.



Motivation—The Market

LOWE'S: HOW WE GROW

A montage of our 1971 advertising and sales promotion efforts. Shown are Arnold Palmer, Richard Petty, and Roman Gabriel.

A Marketing Definition: The concept of Marketing which seems most appropriate to us was written by Clarence E. Eldridge, who defined it as, "The art of determining the needs and wants of customers and filling them, at a profit to the organization." This customer-oriented approach is essential to marketing success, and the profit discipline is essential for corporate success. Therefore, an increasing amount of emphasis is being placed on research, in the attempt to keep our antennae trained towards the market, and to interpret the signals.

Marketing Research: Our research efforts take varied forms. 12,000 research opportunities visit our stores each day, called customers. Lowe's personnel are trained and financially motivated to maintain a helpful, listening attitude, and to channel this information back to the person in decision-making authority. Formal opportunities for market information flow include weekly store meetings of all personnel; weekly written reports from each store manager with sections for comments on inventories, advertising, delivery, and customer service; and regular managers' meetings.

Our data processing system provides valuable information feedback. Patterns of customer behavior with regard to products and services have often been spotted first in IBM reports. We had not realized, for example, the extent of increasing consumer buying of 2 x 4 studs until a purchase quantity analysis revealed it.

Formal marketing research is a continuous process as our stores, product line, and customer mix grow and evolve. Customer surveys, market definitions, and market studies are conducted regularly.

Merchandise Research: Merchandise research is also required on a continuous basis, and this necessitates the personal judgment and talent of people. Data processing can tell us what is not selling, but not why, or what will sell. This task



Advertising executives and artists at Lowe's owned agency, Sterling Advertising, Ltd.

A Lowe's television commercial being produced in studios in Charlotte, North Carolina.

Full color "tabloids", effective print advertising for Lowe's, being printed on a large Atlanta web press.



falls to our Marketing Managers, Merchandising Managers and Purchasing Agents who make a continued study of merchandise trends. They listen to salesmen, shop competitors, visit exhibits and trade shows, and exercise basic market judgment.

Advertising: Prerequisite to being one of the nation's fastest growing retailers is having an innovative, aggressive advertising strategy. The past five years have seen a boom in Lowe's advertising capabilities. Our advertising people, a relatively small but solidly professional group, have led Lowe's to the position of acknowledged leadership in our field. The foremost goals of every person in the group are to keep the customers "coming through the doors", maintain our competitive superiority, and continue to enhance Lowe's corporate image.

Re-writing the advertising record books has become a pleasant habit at Lowe's, and fiscal 1971 was no exception. Our customer count for the year was 3,194,323, 17% better than 1970.

The newspaper medium continued to carry the bulk of Lowe's advertising in 1971, but as can be seen from the map, Lowe's market area is widely covered by other media as well. Television continues to grow as a part of our advertising program. Radio has long been a favorite with our store managers because of its flexibility and is controlled almost completely on a local level. We are now for the first time using full color billboards regularly. Full color pre-printed mailers and newspapers inserts account for a large portion of our ad budget. Everything from sales tickets to postage meter stamps is being designed to carry a special Lowe's message in a creative outlook and definition of media.

Outlook: We are confidently anticipating the continued profitability of our market motivation efforts, with an even larger consumer franchise being earned and owned by Lowe's.

Writing The Business

LOWE'S: HOW WE GROW

The opening day crowd at our new store in Muscle Shoals, Alabama.



Lowe's Stores: Here's where it all comes together—the goods, the services, the customers and their money, our people and their motivations. These pictures are typical of scenes at Lowe's on a busy Saturday, a holiday sales event, or a Grand Opening of a new store. There is a minimum of formal ceremony—the emphasis is placed on an air of festivity, exciting promotions, and getting acquainted with our visitors and friends. As these photographs indicate, the value and interesting variety of our product line, and the flair of our merchandising draw attention from a wide cross section of shoppers. And these customers see us as a local business because our store personnel are active community-minded people. Known products, optimum service, low prices, known people. It does make a customer comfortable, contributing to Lowe's growth.

Promotions: Grand Opening and local promotions vary from store to store, and by season, but include free refreshments, Buyer's Guide Catalogs, how-to-do-it product demonstrations by manufacturer's representatives, carnival rides in the parking lot for children and live music entertainment. Of all the hundreds of different sales promotions we have used, however, none has been as universally successful and popular as Lowe's "Heart's Desire" Grand Prize Drawing. Customers are invited to choose what the Grand Prize will be. We ask them to look over all the products on display and to write on the entry card the one that they would most like to win as their "Heart's Desire". Then if their name is drawn, they have selected their own award, from shopping our product line. This insures that our products and displays get careful scrutiny, particularly from the ladies.

An RCA color television console is the most often-selected grand prize choice, but many times the winning ticket has called for an electric saw, toaster or other surprisingly modest choice of merchandise.

Product Line Sales Analysis: Listed here are the principal products we sell, grouped in seven major categories. The table at right shows the sales performance of these categories and their 5-year growth rate. We do not list "net product profit", because unlike manufacturers, our retail stores are our profit centers both conceptually and in reality.

- (1) Lumber: Dimensional lumber, framing, studs, flooring, mouldings, siding, and shelving.
- (2) Building Materials: Plywood, gypsum board, roofing, paneling, carpeting, components, cement, plaster, brick, tile flooring, paint, doors, windows, and nails.
- (3) Building Hardware: Plumbing materials, electrical supplies, heating equipment, locks, hinges, lighting fixtures, home water systems, and central air-conditioning.
- (4) Home Appliances: Ranges and refrigerators, washers and dryers, freezers, air-conditioners, water heaters, dishwashers, disposals, and kitchen cabinets.
- (5) House and Yard: Power lawn mowers, riding mowers, garden tillers, power tools, hand tools, electric housewares, bicycles, gym sets, swimming pools, lawn furniture, outdoor living equipment, mini-bikes, campers, housewares, giftwares, and sporting goods.
- (6) Home Entertainment: Color and black and white television, tape recorders, stereophonic record players, high fidelity radio equipment, intercoms, guitars, amplifiers, tapeplayers, and cartridge tapes.
- (7) Mobile Homes.

Trend Analysis: An understanding study of these product trends and growth rates can only be made with a simultaneous review of the trends in Lowe's changing customer mix, as detailed in Table B on Page 15, Lowe's Customer Sales Profile.

Total family shopping appeal is a marketing objective. Merchandise selection and store atmosphere is essential.

Rather than cut a ribbon, we saw a board to officially open our new stores. Shown here, the Atlanta opening.

Honest—we didn't pose this shot—showing retail customers on one side and professional buyers on the other.



Product Sales Analysis and Trends

Category	Fiscal 1966		Fiscal 1967		Fiscal 1968		Fiscal 1969		Fiscal 1970		Fiscal 1971		5 Year CAGR	
	Sales*	% Of Total	Sales*	% Of Total	Sales*	% Of Total	Sales*	% Of Total	Sales*	% Of Total	Sales*	% Change		% Of Total
1	\$15,330	19.9	\$14,310	18.9	\$21,150	21.8	\$ 27,650	23.2	\$ 25,760	20.0	\$ 37,150	+44.2	21.9	19.4
2	40,220	52.2	39,890	52.7	49,000	50.5	60,040	50.4	62,565	48.7	81,730	+30.6	48.2	15.2
3	7,630	9.9	7,110	9.4	7,960	8.2	9,010	7.6	10,880	8.5	14,550	+33.7	8.6	13.8
4	5,600	7.3	5,680	7.5	7,760	8.0	10,100	8.5	12,050	9.4	16,970	+40.8	10.0	25.0
5	4,870	6.3	5,150	6.8	6,500	6.7	7,130	6.0	8,760	6.8	10,010	+14.3	5.9	15.5
6	3,390	4.4	3,560	4.7	4,660	4.8	5,120	4.3	7,170	5.6	7,160	—	4.2	16.2
7									1,315	1.0	2,150	+63.5	1.2	—
Total	\$77,040	100	\$75,700	100	\$97,030	100	\$119,050	100	\$128,500	100	\$169,720	+32.1	100	17.1

*ROUNDED FIGURES, THOUSANDS OF DOLLARS
100POUND GROWTH RATE

Growth and Expansion

LOWE'S: HOW WE GROW

Eleven new stores received Lowe's exterior signs during fiscal 1971, with more to come during 1972.



Growth: Lowe's management believes in growth. Not only sales growth, but also profit growth, and specifically (since becoming a public company in 1961) growth in earnings per share.

Sales & Store Growth Rates: From 1961 through 1971, Lowe's sales volume has increased at a 18.5% annual compound rate. During this same period, sales volume in the 15 original 1961 markets has grown at a 5.2% annual rate. The balance, of course, came from new stores, which have been opened at a compound rate of 17.5%. A comparison of this 17.5% new store growth rate and the total sales increase rate of 18.5% must take into account differences in timing of new store openings during the year, and differing sales volume maturation rates. However, it does show the basic importance of store expansion to our growth. And the long-term 5.2% growth rate in established stores indicates additional sales growth potential in the present 75 markets.

Earnings Growth: From 1961 through 1971, net earnings have grown from \$934,426 to \$6,547,589, an annual growth rate of 21.5%. The compound growth rate in earnings per share, during this same period, has been 21.1%.

Performance: Our objective is also to post a balanced performance. In that regard, we believe that an important measure of a company's performance is the rate of return on stockholders' equity. As shown in Performance Measurements in the 16-year review on pages 40 through 42, Lowe's has consistently achieved management's objective of 20% on average equity. This best measures a company's top management, whose policies on capital composition and the debt-equity ratio, have a significant effect on rate of return on equity.

Perhaps a better measurement of operating management is return on total assets, and we believe that beginning

assets is the more relevant figure. In a sense, the Board of Directors, at the beginning of each fiscal year, entrusts the assets of the company to operating management to use and to increase. Lowe's record in this measurement is also shown in the 16-year review, with the basic trend upward, and 13.25% return achieved this year.

A Comparison: Shown in the table are various performance measurements of three groups: the nation's top ten retailers (non-food); the two largest companies with major chain building material retailing activity; and Lowe's latest five years. (We like to think of these three groups as the Big, the Bad, and the Beautiful!)

Many conclusions may be drawn from this study. Sears' return on sales, Penney's return on equity, and Kresge's growth in sales and earnings per share prove that giant companies can be nimble performers. And expansion is not diluting Lowe's performance. Our employees doubled during this period and profit per person increased. These comparisons reinforce management's policy decisions — not to try to be all things to all people — not to chase each grass-is-greener prospect — but to invest our resources of time, energy, experience, and growth investment funds into additional Lowe's stores as our basic growth policy.

Expansion Department: Determining store locations on a priority basis is the job assignment of Lowe's Expansion Department. It was formed in January, 1969, to bring specialized full-time attention to this vital aspect of Lowe's growth. Two executives have been assigned to staff this department.

Choosing Markets: Growing concentrically, and expanding our merchandising influence in gradually larger circles has much to recommend it. One reason is that efficiency in logistics is most likely to be maintained. Another

Aerial views give good "fixes" on prospective new locations and their proximity to people, roads, and rail.

Steel framework being erected for a new Lowe's store with integral sales floor and warehouse.

View from the parking lot of the completed store, showing the blue mansard marquee design we use.

is that Lowe's job of getting acquainted with the public may be easier because of spill-over of previous advertising and other promotional efforts. So growing concentrically has been our basic pattern.

However, these same benefits and reasons apply even more strongly to new locations within Lowe's present perimeter, or sphere of influence. And as our product line has expanded, and as the economic activity of our market area has increased, (see pages 18 through 21 for a measure of this), we find that towns that previously have been passed over in favor of higher-priority areas, are now prime prospects for new Lowe's stores.

Criteria: The Expansion Department has an extensive check-off list for prospective stores. Some of the important considerations are: the population and size of the market, the accessibility of the location to retail traffic, the zoning, rail siding availability, adequate size (about four acres) for warehouse, sheds, sales floor and parking, etc., etc. Leads are being followed up, and locations evaluated on a systematic basis.

New Store Locations—Fiscal 1972: Our expansion plans for fiscal 1972 call for 17 new stores, a 22.7% increase over the present 75. Fifteen of these are listed on page 2, and are already in process.



Performance Measurements and Comparisons

Latest Annual Figures	Total Sales (\$00,000)	Net Income (\$00,000)	% Return On Sales	Ending Total Assets (\$00,000)	Sales Per Asset \$	% Return On Ending Assets	Ending Stockholders' Equity (\$00,000)	Sales Per Equity \$	% Return On Ending Equity	10 Year Compound Growth Rate Earnings Per Share %	Number of Employees	Sales Per Employee	Net Income Per Employee
Sears	\$9,282	\$464	5.0	\$7,623	\$1.22	6.1	3,708	\$2.50	12.5	8.93	359,000*	\$26,799	\$1,292
Penney	4,151	114	2.7	1,627	2.55	7.0	753	5.51	15.1	8.93	145,000	28,627	786
Marcor	2,805	60	2.1	2,460	1.14	2.4	896	3.13	6.7	12.82	127,100*	22,069	472
Kresge	2,595	67	2.6	926	2.80	7.2	457	5.68	14.7	18.52	80,500*	32,236	832
Woolworth	2,528	77	3.0	1,436	1.76	5.4	834	3.03	9.2	4.58	225,300*	11,220	342
Federated	2,097	82	3.9	1,166	1.80	7.0	692	3.03	11.8	7.01	75,700*	27,701	1,083
Gamble-Skogmo	1,297	15	1.2	772	1.68	1.9	194	6.69	7.7	—	24,300	53,374	617
Grant	1,259	40	3.2	808	1.56	5.0	302	4.17	13.2	14.36	65,000*	19,369	615
Allied	1,225	15	1.2	922	1.33	1.6	311	3.94	4.8	1.39	50,000*	24,500	300
City Products	1,207	25	2.1	519	2.33	4.8	254	4.75	9.8	17.22	33,600	36,923	744
Evans Products	553	11	2.0	401	1.38	3.7	143	3.87	7.7	—	12,400	44,596	887
Wickes	515	7.5	1.5	253	2.04	3.0	103	5.00	7.3	2.67	10,200	50,490	735
Lowe's: 1971	169.7	6.5	3.86	69.1	2.46	9.50	30.6	5.55	21.4	21.1	2,071	81,952	3,161
1970	128.5	4.9	3.79	49.4	2.60	9.92	24.9	5.16	19.7	—	1,670	78,946	2,934
1969	119.1	4.6	3.87	41.4	2.86	11.06	20.9	5.70	22.0	—	1,450	82,137	3,172
1968	97.0	3.6	3.70	35.4	2.74	10.17	17.0	5.71	21.2	—	1,223	79,313	2,944
1967	75.7	2.8	3.66	30.0	2.53	9.33	14.0	5.41	20.0	—	1,017	74,434	2,753

SOURCE OF FIGURES FOR OTHER COMPANIES: REPRINTED FROM THE FORTUNE DIRECTORY BY SPECIAL PERMISSION. ©1971 TIME INC. FIGURES MAY VARY SLIGHTLY DUE TO ROUNDING. FIGURES FOR LOWE'S ARE COMPUTED HERE ON ENDING ASSETS AND EQUITY FOR COMPARISON PURPOSES. SEE PERFORMANCE MEASURES, PAGE 49 THROUGH 42, FOR AMPLIFIED TREATMENT.

*INDICATED AVERAGE NUMBER OF EMPLOYEES DURING YEAR OTHERS USE YEAR-END EMPLOYEE FIGURES.



The Corporate History of Lowe's

Lowe's began very quietly. The original company was Mr. L. S. Lowe's hardware store in North Wilkesboro, N.C., founded in 1921. It was going its quiet way in 1940, when Ruth Lowe, daughter of the founder, did two things that profoundly influenced the history of Lowe's Companies, Inc. She sold North Wilkesboro Hardware to her brother, James L. Lowe, for \$4,200. And she married H. Carl Buchan, Jr.

He was then employed in the traffic department of the Atlantic & East Carolina Railroad. He continued to work for the railroad until 1942, when he enlisted in the Army. Mr. Lowe joined the Air Corps; Mrs. Buchan and her mother operated North Wilkesboro Hardware.

Private Buchan was sent to Officer Candidate School and received a commission, but was injured and discharged in 1943. As he later recalled, "Jim Lowe told me if I would go home and inventory the stock and make enough money to pay him the amount of the inventory, I could have half interest."

The Birth Years: "I immediately proceeded to North Wilkesboro and took a physical inventory. It amounted to \$12,500 and consisted of notions, dry goods, snuff, produce, groceries, small miscellaneous hardware and building material. The business was located in a building 25 x 140 feet. After assuming management, I sold out all the stock except the heavy hardware and building materials. In a year or two," Buchan said, "our business began to prosper, and its future was limited only by our own imagination and ability."

As far as retailing was concerned, Buchan's imagination was innovative and bold. He envisioned the mass marketing of building materials even then. In 1949, Lowe's opened its first expansion store, in Sparta, North Carolina; 40 miles from North Wilkesboro. Buchan and Lowe then acquired an automobile dealership and a

cattle farm—but Buchan, in the next three years, devoted himself completely to the low-margin marketing of building materials, while his partner became more committed to automobiles and cattle. "In 1952," Carl Buchan recalled, "I was able to trade my interest in these two operations for Jim's interest in the two stores. I was completely on my own for the first time."

"Predictions were that I would fail; my trade connections said that I would not last beyond 90 days." But about 90 days later, he opened the Asheville, North Carolina store, and Lowe's was on its way. Sales zoomed from 1952 through 1959: \$4.1 million, \$6.4 million, \$9 million, \$11.9 million, \$17.4 million, \$18.2 million, \$20.4 million, \$27 million. The company added stores: one in 1954, two in 1955, three in 1958, four in 1959, and two in 1960.

A management team began to develop. Petro Kulynych, who had started as a clerk in 1946, became Vice President in charge of Purchasing in 1954. Leonard Herring, with extensive experience in department store operation, joined the company in 1955 and became Secretary and Treasurer in 1956. Joe V. Reinhardt, a specialist in electronic data processing, joined in 1956 and began to develop an integration of warehousing, materials handling and data processing. Robert L. Strickland, a graduate of Harvard Business School, joined the company in 1957 to work in Advertising and Marketing. John A. Walker, a sales executive of the Hotpoint Division of General Electric Company, joined in 1958 and became Lowe's Sales Manager.

In the year ending July 31, 1960, sales volume rose to \$30.7 million; and this, to Carl Buchan, was only the beginning. "I now desire to build this business into the largest and most successful of its type in the world, owned and controlled by those who have built it," he wrote. But on the morning of October 22, 1960, the executive group, waiting for Mr. Buchan to attend their weekly meeting, learned that he was dead of a heart attack, at age 43.

Profit Sharing Ownership: Carl Buchan's future planning had called for the Lowe's Employees Profit Sharing Plan and Trust to buy blocks of his stock—periodically during his lifetime, and the balance at his death. So during the next trying months, the management group remained intact, and working with the executor of the estate, attempted to determine the best alternative for the future development of Lowe's in accordance with the plans of Mr. Buchan.

The profit sharing Trust had replaced an existing pension plan, was just four years old, and had only a modest financial base. However, during 1961, a plan of action was agreed upon. Of 1,000,000 shares of Lowe's common stock, 110,820 were owned by employees and business associates of Buchan. The Profit Sharing Trust bought the remaining 889,180 shares of Lowe's common stock from the Buchan estate and family for \$4.3 million in cash and a series of notes totalling \$1 million. The cash payment was obtained from a short term loan; and the loan was repaid from the proceeds of a public offering of 410,000 shares of common stock, at a price of \$12.25. G. H. Walker & Company of New York, was managing underwriter for the offering, on October 10, 1961.

The Profit Sharing Trust retained the balance of the Lowe's common stock until the secondary offering in January 1971 of 400,000 shares at \$43.25 per share.

G. H. Walker & Co. again formed a group of investment bankers to underwrite and sell the stock. This group included Merrill Lynch; Goldman Sachs; duPont Glore Forgan; Eastman Dillon, Union Securities; Hornblower & Weeks-Hemphill, Noyes; Kidder Peabody; Lehman Brothers; Paine, Webber, Jackson, & Curtis; Smith, Barney; White, Weld; Dean Witter; Burnham; Clark, Dodge; W. E. Hutton; Reynolds; Shearson, Hammill; Shields; F. S. Smithers; Robert Fleming; and Laird. The reputation and participation of this group insured a

successful transaction, and remains an impressive endorsement of the increasing investment quality of Lowe's stock.

Ten Growth Years: In the reorganization of 1961, Edwin Duncan, President of The Northwestern Bank, who had been the company's financial advisor since 1952, became President and Board Chairman. William H. McElwee, Lowe's general counsel, became Vice President and Director. Gordon E. Cadwgan, general partner of G. H. Walker & Company, became a member of the Board along with the five members of the management staff.

Launching Lowe's Growth Phase with vigor and a keen sense of opportunities, this management group has steered Lowe's to new highs. During these first 10 growth years, stores have been increased from 15 to 75, sales from \$31.1 to \$169.7 million, earnings per share from \$0.23 to \$1.56, and net worth from \$5 million to \$30.5 million. In 1970, another reorganization was effected as follows: Mr. Duncan, Chairman of the Board; Messrs Herring, Kulynych, Strickland, Reinhardt and Walker, Office of the President, with complementing duties. Mr. Cadwgan and Mr. McElwee round out the Board of Directors.

Lowe's: A Historic Marketing Innovation

The corporate details of Lowe's are factual, but convey neither the significant marketing elements of the time, nor the excitement, ambition, and hard work of the people involved.

In 1946, virtually all residential building materials were sold through the conventional distribution channels—manufacturer to wholesaler, to retailer, to builder or sub-contractor, then finally to the consumer. The price paid by the consumer reflected all these pricing levels. Restricted franchises helped perpetuate this costly and inefficient system. Plumbing, heating and electrical materials, needed in every home, were not sold by most building material retailers, requiring the customer to deal with other

inefficient distribution systems also. The Lowe's idea was beautifully simple—to create one-stop shopping for the customer, and to buy directly from manufacturers at the same prices that wholesalers were paying, and to sell directly to the general public at the same prices the dealer had to pay. In many cases, "Lowe's Low Price" at retail was less than the dealers' buying price from the wholesalers. This caused confusion, anger, and sometimes chaos in the trade channels, but it built a reputation and was the foundation of a great business.

When the material shortages of the Korean War began to affect the business, Lowe's Low Prices were not raised, and efforts to acquire materials were intensified, with successful results. So when Lowe's had merchandise that no one else had, and the prices were still startlingly low, a new dimension was added to the growing legend. About this time, Lowe's began to sell major appliances in volume, a venture that would lead to a greatly expanded merchandise line, and help make Lowe's Low Prices a household word in the area.

Lowe's people were young, dedicated and aggressive. They were inspired by Buchan's drive and vision and spurred by the personal incentives which have become a hallmark of Lowe's. Many are still with the company.

Just as the supermarket concept revolutionized grocery retailing in the thirties, Lowe's new concept was to have far-reaching effects on the merchandising of building materials and hard goods.

Ten More Growth Years: We have a 10 year vision of achieving \$1 billion in sales in 1981. We feel that we are halfway there, not in sales, but in years. A 19% compound growth rate in sales from our 1961 sales base of \$31 million equals \$1 billion in 1981. Through 10 years, we are at 18.3%, and our store expansion program and the increase in sales per store should put us on target by the end of this year.

Consolidated Earnings Statement

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

Year ended July 31, 1971 with comparative figures for 1970

1971

1970

CURRENT EARNINGS		
Income:		
Net Sales	\$169,722,859	\$128,491,284
Other Income	—	1,800
Total Income	<u>\$169,722,859</u>	<u>\$128,493,084</u>
Costs and Expenses:		
Cost of Sales, Selling, Administrative and General Expenses	\$152,528,411	\$115,370,586
Rents	492,119	436,110
Depreciation and Amortization	1,626,561	1,220,867
Contribution to Employees' Profit-Sharing Plan	1,569,121	1,199,946
Interest and Loan Expense	479,177	327,503
Total Costs and Expenses	<u>\$156,695,389</u>	<u>\$118,555,012</u>
Pre-Tax Earnings	\$ 13,027,470	\$ 9,938,072
Provision for Income Taxes	6,479,881	5,068,261
Net Earnings	<u>\$ 6,547,589</u>	<u>\$ 4,869,811</u>
Per Share:		
Shares Outstanding at End of Year	4,209,559	4,207,428
Net Earnings — Computed on Basis of Daily Average Shares Outstanding	<u>\$ 1.56</u>	<u>\$ 1.16</u>
RETAINED EARNINGS		
Balance at Beginning of Year	\$ 22,207,553	\$ 18,181,477
Net Earnings	6,547,589	4,869,811
Total	<u>\$ 28,755,142</u>	<u>\$ 23,051,288</u>
Less Dividends to Shareholders (\$.21½ and \$.20 per Share Respectively)	907,027	843,735
Balance at End of Year	<u>\$ 27,848,115</u>	<u>\$ 22,207,553</u>

SEE NOTES TO FINANCIAL STATEMENTS ON PAGES 37 AND 38

Consolidated Balance Sheet

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

July 31, 1971 with comparative figures at July 31, 1970

1971

1970

ASSETS		
Current Assets:		
Cash	\$ 6,303,588	\$ 4,657,958
Accounts Receivable Less Allowance for Doubtful Accounts — 1971 — \$937,955; 1970 — \$727,541	20,944,011	14,887,120
Inventories at the Lower of Cost (First-In, First-Out) or Market	27,332,077	19,040,313
Prepaid Expenses and Other Current Assets	331,268	292,870
Total Current Assets	<u>\$54,910,944</u>	<u>\$38,878,261</u>
Property, Improvements and Equipment: At Cost Less Accumulated Depreciation 1971 — \$5,463,728 — 1970 — \$4,445,568	14,087,212	10,389,480
Other Assets:		
Unamortized Loan Expense	11,228	9,830
Sundry Assets at Cost	76,376	138,194
Total Assets	<u>\$69,085,760</u>	<u>\$49,415,765</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Trade Accounts Payable	\$21,998,684	\$15,178,120
Long Term Debt Due Within One Year	478,622	475,162
Accrued Expenses	3,321,677	1,886,272
Provision for Employees' Profit-Sharing	1,105,051	839,046
Provisions for Income Taxes	4,293,451	2,832,929
Total Current Liabilities	<u>\$31,197,485</u>	<u>\$21,211,529</u>
Long-Term Debt:		
Notes Payable	7,295,960	3,315,347
Total Liabilities	<u>\$38,493,445</u>	<u>\$24,526,876</u>
Shareholders' Equity:		
5% Preferred Stock — \$100 Par Value, Authorized 500 Shares; Issued and Outstanding, 450 Shares	\$ 45,000	\$ 45,000
Common Stock — \$.50 Par Value, Authorized 10,000,000 Shares; Issued and Outstanding 1971 — 4,209,559 Shares, 1970 — 4,207,428 Shares	2,104,779	2,103,714
Capital Surplus	594,421	532,622
Retained Earnings	27,848,115	22,207,553
Total Shareholders' Equity	<u>\$30,592,315</u>	<u>\$24,888,889</u>
Total Liabilities and Shareholders' Equity	<u>\$69,085,760</u>	<u>\$49,415,765</u>

SEE NOTES TO FINANCIAL STATEMENTS ON PAGES 37 AND 38

Consolidated Statement of Changes in Financial Position

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

Year ended July 31, 1971 with comparative figures for four prior years

	Five Year Totals		7-31-71		7-31-70		7-31-69		7-31-68		7-31-67	
(AMOUNTS IN THOUSANDS)		%		%		%		%		%		%
SOURCE OF FUNDS:												
Net Earnings for the Year	\$22,388	69.2	\$ 6,548	53.6	\$ 4,870	67.5	\$ 4,608	106.4	\$ 3,592	78.9	\$ 2,770	68.9
Depreciation and Amortization of Fixed Properties	5,419	16.8	1,626	13.3	1,221	16.9	951	22.0	827	18.2	794	19.8
Total Funds from Operations	\$27,807	86.0	\$8,174	66.9	\$6,091	84.4	\$5,559	128.4	\$4,419	97.1	\$3,564	88.7
Proceeds from Sale of Stock Under Employees' Stock Options	358	1.1	63	.5	—	—	13	.3	226	4.9	56	1.4
Increase (Decrease) in Long-Term Debt	4,168	12.9	3,980	32.6	1,122	15.6	(1,242)	(28.7)	(92)	(2.0)	400	9.9
Total Funds Available	\$32,333	100.0	\$12,217	100.0	\$ 7,213	100.0	\$ 4,330	100.0	\$ 4,553	100.0	\$ 4,020	100.0
USE OF FUNDS:												
Dividends Paid	\$ 3,947	12.2	\$ 907	7.4	\$ 844	11.7	\$ 780	18.0	\$ 756	16.6	\$ 660	16.4
Added to Working Capital	13,947	43.1	6,046	49.5	2,738	37.9	1,222	28.2	2,046	44.9	1,895	47.1
Fixed Assets Acquired — Net	14,447	44.7	5,324	43.6	3,692	51.2	2,323	53.7	1,643	36.1	1,465	36.5
Other Funds Applied	(8)	—	(60)	(.5)	(61)	(.8)	5	.1	108	2.4	—	—
Total Funds Used	\$32,333	100.0	\$12,217	100.0	\$ 7,213	100.0	\$ 4,330	100.0	\$ 4,553	100.0	\$ 4,020	100.0

Notes to Financial Statements

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

Year ended July 31, 1971

Note 1—Principles of Consolidation:

The consolidated financial statements include the accounts of all subsidiaries, all of which are wholly owned. There are 74 subsidiary corporations: 71 stores, a lumber company, an advertising agency, and a real estate investment company. There were eleven new subsidiaries organized and one liquidated during the current year. All new subsidiaries, except one store still under construction, began operations before July 31, 1971.

Note 2—Long-Term Debt:

The Company's long term debt is summarized as follows:

Loans from a Life Insurance Company:	
Unsecured 5-3/4% Note Maturing 1977 . . .	\$ 420,000
Secured Notes Maturing 1979 to 1984 Interest Rates 5-5/8% to 8%	3,072,475
Loans from Bank and Bank Holding Company:	
Unsecured 6-1/4% Note Maturing 1972 . . .	2,250,000
Secured Notes Maturing 1973 to 1986 Interest Rates 6% to 7-1/2%	1,731,679
Various Other Notes:	
Unsecured Notes Maturing 1972 to 1980 Interest Rates 6% to 6-1/2%	150,428
Secured 8% Note Maturing 1974	150,000
Total Debt	<u>\$7,774,582</u>

Among other conditions, the life insurance loan agreements require the maintenance of consolidated net current assets of \$4,500,000. They restrict dividend payments if consolidated net current assets are less than \$5,000,000 and limit them to 65% of consolidated net income subsequent to July 31, 1961. After giving effect to the dividends paid for the year ended July 31, 1971, there were accumulated earnings of \$13,407,762 free of the dividend restrictions. The agreements also place certain restrictions

on other current and long term borrowing unless approval of the holders of the notes is obtained, and provide for prepayments at varying premium rates over the terms of the loans.

Deeds of Trust on certain real estate have been provided by the Company as collateral on all secured loans.

The total debt maturities during the next three years are as follows: 1972—\$478,622; 1973—\$2,649,766; 1974—\$990,756.

Note 3—Long-Term Leases:

Lowe's Companies, Inc. and its subsidiaries have thirty rental leases expiring more than three years after July 31, 1971, with aggregate minimum annual rentals of approximately \$306,465. One of the leases expires in 1990, none of the others extend beyond 1982 except by option of the Company.

Note 4—Income Taxes:

The Company and its subsidiaries have followed the practice of filing separate federal income tax returns using multiple surtax exemptions as provided for under the Internal Revenue Code of 1954. This practice has been approved by the Internal Revenue Service for all years prior to October 31, 1964 and has resulted in less tax provisions than would have been required if consolidated returns had been filed. The Internal Revenue agents have recently completed an examination for the fiscal years between October 31, 1964 and July 31, 1969, and have submitted reports making primary assessments relative to the surtax exemptions estimated at \$860,000. In the event they are not successful with the primary assessments, the agents have submitted three alternate assessments proposing

taxes ranging from approximately \$325,000 to \$800,000. Various other adjustments have been proposed which are not considered material in the aggregate. All of the proposals are currently being contested before the Internal Revenue Service. Since the practice of using multiple surtax exemptions has been questioned and approved by the Internal Revenue Service in all prior years, it is the opinion of management and counsel that the matter will be concluded without material adverse effect to the Company.

Note 5—Employees' Stock Option Plan:

There is in effect the 1968 Qualified Employee Stock Option Plan approved by the shareholders on November 12, 1968, effective October 1, 1968. The plan provides for the reservation of 200,000 shares of the unissued common stock of the Company to be issued to employees pursuant to options to be granted under the plan. Options may be issued for a period of five years at 100% of the fair market value of the stock on the date the option is granted and may be exercised for 25% of the total number of shares granted during the second year from the date of the grant and for 25% of such total within each of the following three years. If all or a portion of an option is not exercised in the years it becomes exercisable it may be carried over and exercised at any time during the remainder of the option period.

At July 31, 1971 options had been granted for 157,088 shares at \$29.50 per share or a total of \$4,634,096, which was the fair market value of the stock on September 2, 1969, the date the options were granted.

The following table sets forth the transactions that have taken place under the plan:

Beginning Exercisable Date.....	9-2-70
Option Price per Share.....	\$ 29.50
Exercisable During the Year Ended July 31, 1971.....	39,272
Exercised Year Ended July 31, 1971.....	2,131
Shares Forfeited.....	13,095
Options Outstanding July 31, 1971.....	<u>141,862</u>

The market value of the shares on the date the options became exercisable was \$32.00 per share or a total of \$1,256,704.

The market value of the shares acquired under the options during the year varied from \$36.50 to \$68.50. The market value of the unexercised options at July 31, 1971 was approximately \$68.50 per share, or a total of \$9,717,547.

Note 6—Employees' Profit-Sharing Plan:

There is in effect a qualified noncontributory employee profit-sharing plan established in June 1957. The Company and subsidiaries generally contribute to the plan the maximum amount allowed under the Internal Revenue Code; that is, 15% of the aggregate annual compensation paid to participating employees. The trust created by the plan is the Company's largest shareholder.

Note 7—Cost and Expenses:

The Company's cost and expenses are classified as follows in its annual report to the Securities and Exchange Commission:

	7-31-71	7-31-70
Cost of Sales, Buying Warehousing and Occupancy Expense.....	\$138,142,956	\$104,506,196
Selling, Administrative and General Expenses.....	17,074,381	13,005,114
Provisions for Bad Debts.....	998,875	716,199
Interest and Loan Expenses.....	479,177	327,503
	<u>\$156,695,389</u>	<u>\$118,555,012</u>

Report of Certified Public Accountants

J. A. Grissette, C. P. A.
James P. Murray, C. P. A.
Robert T. McGinnis, C. P. A.
Nolan D. Lewis, C. P. A.
George H. Spencer, C. P. A.
D. Leon Clark, C. P. A.

J. A. GRISETTE & CO.
CERTIFIED PUBLIC ACCOUNTANTS
104 North Mulberry Street
P. O. Box 759
Lenoir, N. C. 28645
TEL. 704 758-2321

MEMBERS:
American Institute of Certified
Public Accountants and North
Carolina Association of Certified
Public Accountants

The Board of Directors
Lowe's Companies, Inc.

We have examined the consolidated balance sheet of Lowe's Companies, Inc., and subsidiary companies at July 31, 1971, and the related consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was 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 statements mentioned above present fairly the consolidated financial position of Lowe's Companies, Inc., and subsidiary companies at July 31, 1971, the consolidated results of their operations and the use of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

J. A. Grissette & Co.
J. A. GRISETTE & CO.
Certified Public Accountants

Lenoir, North Carolina
September 30, 1971

Officers and Directors

Edwin Duncan
Chairman of the Board of Directors

Petro Kulynych
Vice Chairman of the Board of Directors
Executive Committee Member
Executive Vice President,
Office of the President

John A. Walker
Board of Directors
Executive Committee Member
Executive Vice President,
Office of the President

Leonard G. Herring
Board of Directors
Executive Committee Chairman
Senior Vice President,
Office of the President

Robert L. Strickland
Board of Directors
Executive Committee Member
Senior Vice President,
Office of the President

Joe V. Reinhardt
Board of Directors
Executive Committee Member
Senior Vice President,
Office of the President

William H. McElwee
Board of Directors
Senior Vice President
General Counsel

Gordon E. Cadwgan
Board of Directors
Partner, G. H. Walker & Co.

Rex L. Shumate
Assistant Treasurer

General Information

Ross Burgess
Regional Manager

Dwight E. Pardue
Regional Manager

Albert E. Plemmons
Regional Manager

Headquarters:
Lowe's General Office, Highway 268 East,
Box 1111, North Wilkesboro, N.C. 28659

Common Stock:
Lowe's common stock price is quoted on
NASDAQ computers, and published daily in the
National Over-The-Counter Market.

Dividend Disbursing Agent:
Wachovia Bank & Trust Company, N.A.
Box 1951, Raleigh, N.C. 27602

Transfer Agents:
Morgan Guaranty Trust Company of New York,
23 Wall Street, New York, N.Y. 10015
Wachovia Bank & Trust Company, N.A.
Box 1951, Raleigh, N.C. 27602

Registrars:
The Chase Manhattan Bank,
One Chase Manhattan Plaza,
New York, N.Y. 10015

The Northwestern Bank,
Box 311, North Wilkesboro, N.C. 28659

General Counsel:
McElwee & Hall
Box 1054, North Wilkesboro, N.C. 28659

Auditors:
J. A. Grisette & Co.
Certified Public Accountants,
Box 759, Lenoir, N.C. 28645

Sixteen Year Review of Performance

These figures reflect Lowe's internal growth since no acquisitions have been made during these sixteen years.

Year Ended July 31		15 Year Compound Growth Rates 1956-1971	10 Year Compound Growth Rates 1961-1971	5 Year Compound Growth Rates 1966-1971	1971
Stores and People					
1	Number of Stores	18.3%	17.5%	14.0%	75
2	Number of Employees	17.0%	17.9%	18.4%	2,071
3	Customers Served	n/a	17.2%	14.3%	3,194,323
4	Average Customer Purchase				\$ 53.13
Comparative Income Statement (Thousands)					
5	Total Sales	16.4%	18.5%	17.1%	\$ 169,723
6	Pre-Tax Earnings	20.1%	21.2%	19.8%	\$ 13,027
7	Taxes on Income	20.0%	21.1%	21.0%	\$ 6,479
8	Net Earnings	20.4%	21.5%	18.7%	\$ 6,548
9	Cash Dividends Paid	n/a	24.1%	8.1%	\$ 907
Dollars Per Share: (1)					
10	Earnings (2)	20.1%	21.1%	18.1%	\$ 1.56
11	Cash Dividends	n/a	24.0%	7.5%	\$.215
12	Shareholders' Equity	23.1%	19.3%	20.6%	\$ 7.27
Performance Measurements*					
13	Sales Per Beginning Asset Dollar				\$ 3.43
14	Sales Per Average Shareholder Equity Dollar				\$ 6.12
15	Earnings As Percent of Sales				3.86%
16	Percent Return on Beginning Assets				13.25%
17	Percent Return on Average Shareholders' Equity				23.64%
18	Compound Growth Rate in Earnings Per Share—from 1961				21.1 %
Comparative Balance Sheet (Thousands)					
19	Current Asset Totals	20.4%	19.5%	18.6%	\$ 54,911
20	Cash				\$ 6,304
21	Accounts Receivable (Net of Reserve)	26.9%	21.1%	17.6%	\$ 20,944
22	Inventories (Lower of Cost or Market)	17.9%	19.0%	20.3%	\$ 27,332
23	Other Current Assets				\$ 331
24	Fixed Assets	34.9%	27.5%	22.7%	\$ 14,087
25	Other Assets				\$ 88
26	Total Assets	21.8%	19.3%	19.3%	\$ 69,086
27	Current Liabilities Totals	19.7%	20.2%	18.0%	\$ 31,198
28	Accounts Payable	19.7%	21.1%	18.3%	\$ 21,999
29	Income Tax Provisions				\$ 4,293
30	Other Current Liabilities				\$ 4,906
31	Long-Term Debt	28.2%	15.1%	18.5%	\$ 7,296
32	Deferred Credits				
33	Total Liabilities	20.7%	19.0%	18.0%	\$ 38,494
34	Shareholders' Equity	23.3%	19.7%	21.0%	\$ 30,592
35	Ratio: Equity ÷ Long Term Debt				4.19
Shareholders and Shares					
36	Shareholders of Record (3)				2,463
37	Shares Outstanding (1) (4)				4,209,559
38	Stock Price Range (1)				\$ 69-29

Auditors Notes

- (1) As adjusted to give effect to a 100% stock dividend at May 2, 1966 and a 2 for 1 stock split at November 21, 1969.
- (2) After deducting \$2,250 dividends per year on preferred stock. For the years 1956 through 1961, the earnings are based on 4,000,000 shares, the outstanding shares at October 10, 1961.
- (3) Public offering of stock October 10, 1961.
- (4) Variation in the outstanding shares is the result of transactions under employee stock option plans. No shares have been issued for acquisitions.

Performance Measurements*

For clarification: #13 times #15 = #16.
Also, #14 times #15 = #17. Figures may vary slightly due to rounding.

#16, Return on Assets, may also be computed by dividing Net Earnings by previous year's Total Assets, which are Beginning Assets for the current year. #17, Return on Shareholder's Equity, may also be computed by dividing Net Earnings by the average of previous year's and current year's Shareholders' Equity. We prefer to show the components, and multiply them.

	1970	1969	1968	1967	10 Year Compound Growth Rates 1956-1966	5 Year Compound Growth Rates 1961-1966	Base Year 1966	1965	1964
	64	58	53	44	20.6%	21.0%	39	35	28
	1,670	1,450	1,223	1,017	16.1%	17.4%	891	762	636
	2,728,618	2,290,346	2,034,158	1,754,569	n/a	20.0%	1,635,702	1,283,729	1,141,168
	\$ 47.09	\$ 51.98	\$ 47.70	\$ 43.14			\$ 47.10	\$ 44.44	\$ 42.66
	\$ 128,491	\$ 119,053	\$ 97,031	\$ 75,695	16.0%	19.9%	\$ 77,043	\$ 57,044	\$ 48,680
	\$ 9,938	\$ 9,514	\$ 7,202	\$ 5,151	20.5%	22.7%	\$ 5,286	\$ 3,942	\$ 3,086
	\$ 5,068	\$ 4,906	\$ 3,609	\$ 2,381	19.4%	27.0%	\$ 2,496	\$ 1,896	\$ 1,518
	\$ 4,870	\$ 4,608	\$ 3,593	\$ 2,770	21.1%	24.5%	\$ 2,790	\$ 2,046	\$ 1,568
	\$ 844	\$ 780	\$ 756	\$ 661	n/a	43.5%	\$ 616	\$ 519	\$ 460
	\$ 1.16	\$ 1.10	\$.86	\$.67	21.0%	24.1%	\$.68	\$.50	\$.40
	\$.20	\$.185	\$.18	\$.16	n/a	43.0%	\$.15	\$.128	\$.116
	\$ 5.92	\$ 4.96	\$ 4.05	\$ 3.37	24.7%	18.2%	\$ 2.86	\$ 2.33	\$ 1.93
	\$ 3.09	\$ 3.36	\$ 3.24	\$ 2.65			\$ 3.34	\$ 3.20	\$ 3.11
	\$ 5.62	\$ 6.29	\$ 6.27	\$ 5.88			\$ 7.24	\$ 6.63	\$ 6.94
	3.79%	3.87%	3.70%	3.66%			3.62%	3.59%	3.22%
	11.72%	13.00%	11.99%	9.70%			12.09%	11.49%	10.01%
	21.23%	24.33%	23.19%	21.51%			26.22%	23.80%	22.34%
	19.7%	21.6%	20.6%	19.5%			24.3%	21.1%	20.2%
	\$ 38,878	\$ 33,433	\$ 28,617	\$ 24,164	21.1%	20.4%	\$ 23,396	\$ 19,187	\$ 15,350
	\$ 4,658	\$ 4,640	\$ 4,129	\$ 4,814			\$ 3,024	\$ 3,801	\$ 3,374
	\$ 14,887	\$ 14,559	\$ 11,880	\$ 9,675	31.8%	24.8%	\$ 9,310	\$ 7,165	\$ 5,586
	\$ 19,040	\$ 14,183	\$ 12,475	\$ 9,532	16.8%	17.9%	\$ 10,931	\$ 8,156	\$ 6,337
	\$ 293	\$ 51	\$ 133	\$ 143			\$ 131	\$ 65	\$ 53
	\$ 10,390	\$ 7,918	\$ 6,546	\$ 5,729	41.5%	32.6%	\$ 5,058	\$ 3,832	\$ 2,381
	\$ 148	\$ 209	\$ 205	\$ 99			\$ 105	\$ 77	\$ 73
	\$ 49,416	\$ 41,560	\$ 35,368	\$ 29,992	23.1%	19.3%	\$ 28,559	\$ 23,096	\$ 17,804
	\$ 21,212	\$ 18,505	\$ 14,911	\$ 12,503	18.5%	22.6%	\$ 13,630	\$ 11,213	\$ 7,454
	\$ 15,178	\$ 10,997	\$ 9,703	\$ 8,425	18.4%	24.4%	\$ 9,496	\$ 7,913	\$ 5,149
	\$ 2,833	\$ 3,380	\$ 2,706	\$ 2,177			\$ 2,182	\$ 1,671	\$ 1,142
	\$ 3,201	\$ 4,128	\$ 2,502	\$ 1,901			\$ 1,952	\$ 1,629	\$ 1,163
	\$ 3,315	\$ 2,192	\$ 3,434	\$ 3,527	33.2%	11.8%	\$ 3,127	\$ 2,377	\$ 2,615
			\$ 1	\$ 3			\$ 8	\$ 16	\$ 28
	\$ 24,527	\$ 20,697	\$ 18,346	\$ 16,033	22.1%	19.9%	\$ 16,765	\$ 13,606	\$ 10,097
	\$ 24,889	\$ 20,863	\$ 17,022	\$ 13,959	24.5%	18.5%	\$ 11,794	\$ 9,490	\$ 7,707
	7.51	9.52	4.95	3.95			3.77	3.99	2.95
	2,117	1,916	1,976	2,154			1,985	1,871	1,967
	4,207,428	4,207,428	4,202,828	4,124,842			4,105,304	4,060,832	3,973,000
	\$ 36-19	\$ 36-23	\$ 24-12	\$ 12-6			\$ 10-7	\$ 8-5	\$ 6-3

Compound Growth Rates

The compound growth rate percentages shown for #18, and all other growth rate calculations in this report were made with the help of Compound Interest Tables published by Union Carbide Corporation, for which we express thanks.

LOWE'S

Companies, Inc.

	1963	1962	5 Year Compound Growth Rates 1956-1961	Base Year 1961	1960	1959	1958	1957	Base Year 1956	
	22	18	20.0%	15	15	13	9	6	6	1
	555	491	15.1%	399	360	334	273	215	197	2
	882,593	703,350	n/a	650,506	581,084	n/a	n/a	n/a	n/a	3
	\$ 44.20	\$ 46.52		\$ 47.85	\$ 52.80					4
	\$ 39,012	\$ 32,716	12.3%	\$ 31,128	\$ 30,679	\$ 27,005	\$ 20,444	\$ 18,233	\$ 17,390	5
	\$ 2,438	\$ 2,054	17.8%	\$ 1,890	\$ 1,359	\$ 1,516	\$ 833	\$ 811	\$ 831	6
	\$ 1,233	\$ 1,034	17.7%	\$ 956	\$ 641	\$ 760	\$ 429	\$ 418	\$ 424	7
	\$ 1,205	\$ 1,020	18.1%	\$ 934	\$ 718	\$ 756	\$ 404	\$ 393	\$ 407	8
	\$ 411	\$ 402	n/a	\$ 102						9
	\$.32	\$.26	18.1%	\$.23	\$.18	\$.19	\$.10	\$.10	\$.10	10
	\$.105	\$.10	n/a	\$.025						11
	\$ 1.59	\$ 1.40	31.0%	\$ 1.24	\$.90	\$.72	\$.53	\$.42	\$.32	12
	\$ 2.98	\$ 2.76		\$ 3.32	\$ 4.35	\$ 5.13	\$ 5.38	\$ 5.07	n/a	13
	\$ 6.51	\$ 6.11		\$ 7.17	\$ 9.33	\$ 10.60	\$ 10.49	\$ 11.99	\$ 15.64	14
	3.09%	3.12%		3.00%	2.34%	2.80%	1.98%	2.15%	2.34%	15
	9.21%	8.61%		9.96%	10.18%	14.36%	10.65%	10.90%	n/a	16
	20.11%	19.07%		21.51%	21.84%	29.67%	20.77%	25.78%	36.59%	17
	17.9%	13.0%								18
	\$ 13,976	\$ 11,702	22.0%	\$ 9,305	\$ 8,071	\$ 5,737	\$ 4,618	\$ 3,243	\$ 3,434	19
	\$ 2,735	\$ 1,956		\$ 1,299	\$ 442	\$ 365	\$ 583	\$ 468	\$ 524	20
	\$ 4,968	\$ 3,769	39.9%	\$ 3,108	\$ 2,858	\$ 2,112	\$ 1,324	\$ 680	\$ 584	21
	\$ 6,214	\$ 5,868	15.8%	\$ 4,801	\$ 4,755	\$ 3,164	\$ 2,655	\$ 2,072	\$ 2,304	22
	\$ 59	\$ 109		\$ 97	\$ 16	\$ 96	\$ 56	\$ 23	\$ 22	23
	\$ 1,531	\$ 1,261	55.2%	\$ 1,229	\$ 1,253	\$ 1,281	\$ 630	\$ 550	\$ 158	24
	\$ 123	\$ 134		\$ 1,301	\$ 58	\$ 30	\$ 19	\$ 6	\$ 1	25
	\$ 15,630	\$ 13,097	27.0%	\$ 11,835	\$ 9,382	\$ 7,048	\$ 5,267	\$ 3,799	\$ 3,593	26
	\$ 7,123	\$ 5,696	18.6%	\$ 4,922	\$ 4,874	\$ 3,130	\$ 2,513	\$ 1,778	\$ 2,101	27
	\$ 5,036	\$ 4,255	16.6%	\$ 3,187	\$ 2,827	\$ 1,562	\$ 1,724	\$ 1,068	\$ 1,480	28
	\$ 1,073	\$ 855		\$ 716	\$ 521	\$ 642	\$ 371	\$ 384	\$ 395	29
	\$ 1,014	\$ 586		\$ 1,019	\$ 1,526	\$ 926	\$ 418	\$ 326	\$ 226	30
	\$ 2,139	\$ 1,680	59.0%	\$ 1,791	\$ 862	\$ 986	\$ 589	\$ 292	\$ 176	31
	\$ 42	\$ 59		\$ 79						32
	\$ 9,304	\$ 7,435	24.5%	\$ 6,792	\$ 5,736	\$ 4,116	\$ 3,102	\$ 2,070	\$ 2,277	33
	\$ 6,326	\$ 5,662	30.8%	\$ 5,043	\$ 3,646	\$ 2,932	\$ 2,165	\$ 1,729	\$ 1,316	34
	2.95	3.37		2.81	4.23	2.97	5.26	5.92	7.48	35
	2,034	2,047								36
	3,951,800	4,000,000		4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	37
	\$ 3-2	\$ 5-3								38

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