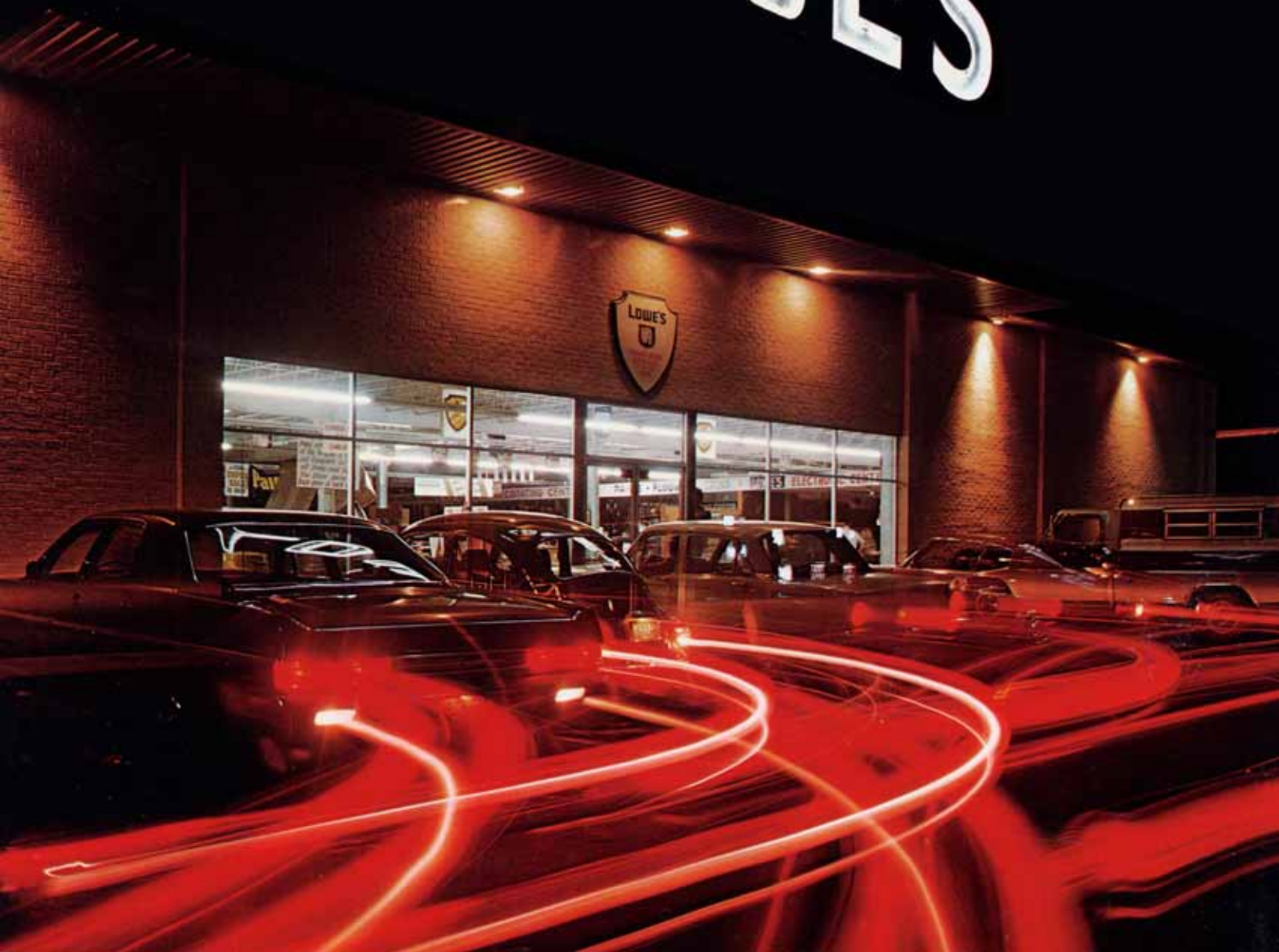


1972 ANNUAL REPORT LOWE'S COMPANIES, INC.

LOWE'S



Here's What We Do

LOWE'S STORES

Shown on the cover is one of the 86 stores, owned and operated by Lowe's on July 31, 1972. Each store in the Lowe's chain throughout our 14 state operating area 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 hard goods discounter.

This retail-wholesale mix of goods and services is provided to two major customer categories. Professional Buyers, primarily associated with the home building industry, including contractors, developers, builders and carpenters, purchased 62% of Lowe's record sales volume in 1972. A wide variety of Retail Customers, including home owners, do-it-yourselfers, farmers, and suburbanites, bought 38%. Our continuing merchandising efforts to this group have resulted in two consecutive national awards from the Brand Names Foundation: Brand Name Retailer of the Year in 1971; and Distinguished Brand Name Merchant in 1972.

Lowe's management is dedicated to the continuing growth and expansion of opportunity, jobs, stores, sales, and earnings per share, for the benefit of our customers, our suppliers, our business associates, our employees, and our shareholders.

ANNUAL MEETING

November 27, 1972, 2:00 p.m.
The Northwestern Bank Building
North Wilkesboro, North Carolina

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Here's How We Did

HIGHLIGHTS <i>of the Year Ended July 31:</i>	1972	1971	<i>Change</i>
Total Dollars:			
Sales	\$234,556,133	\$169,722,859	+38.2%
Pre-Tax Earnings	\$ 18,142,568	\$ 13,027,470	+39.3%
Taxes on Earnings	\$ 9,021,981	\$ 6,479,881	+39.2%
Net Earnings for Shareholders	\$ 9,120,587	\$ 6,547,589	+39.3%
Cash Dividends Paid	\$ 946,119	\$ 907,027	+ 4.3%
Earnings Retained and Reinvested	\$ 8,174,468	\$ 5,640,562	+44.9%
Per Share:			
Sales	\$27.81	\$20.16	+37.6%
Earnings	\$ 1.08	\$.78	+38.4%
Dividends	\$.11	\$.10 ³ / ₄	+ 2.3%
Earnings Retained and Reinvested	\$.97	\$.67 ¹ / ₄	+44.7%
Performance Measurements*:			
Asset Turnover	3.40	3.43	
Return on Sales	3.89%	3.86%	
Return on Assets	13.20%	13.25%	
Leverage Factor	2.26	1.99	
Return on Shareholders' Equity	29.81%	26.31%	
Compound Growth Rate in Earnings Per Share from 1961	22.57%	21.09%	

*See pages 8 and 49 for explanatory notes.



Here's Where We Are

PRESENT STORES

Alabama

Dothan
Montgomery
Muscle Shoals

Delaware

Dover
Wilmington

Florida

Tallahassee

Georgia

Albany
Athens
Augusta
College Park
Columbus
Doraville
Macon
Moultrie
Savannah
Smyrna

Indiana

Clarksville

Kentucky

Elizabethtown
Frankfort
Lexington

Maryland

Cumberland
Hagerstown
Salisbury

Mississippi

Tupelo

North Carolina

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

Ohio

Belpre
Circleville

South Carolina

Anderson
Charleston
Columbia
Florence
Greenville
Manning
Myrtle Beach
Sumter

Tennessee

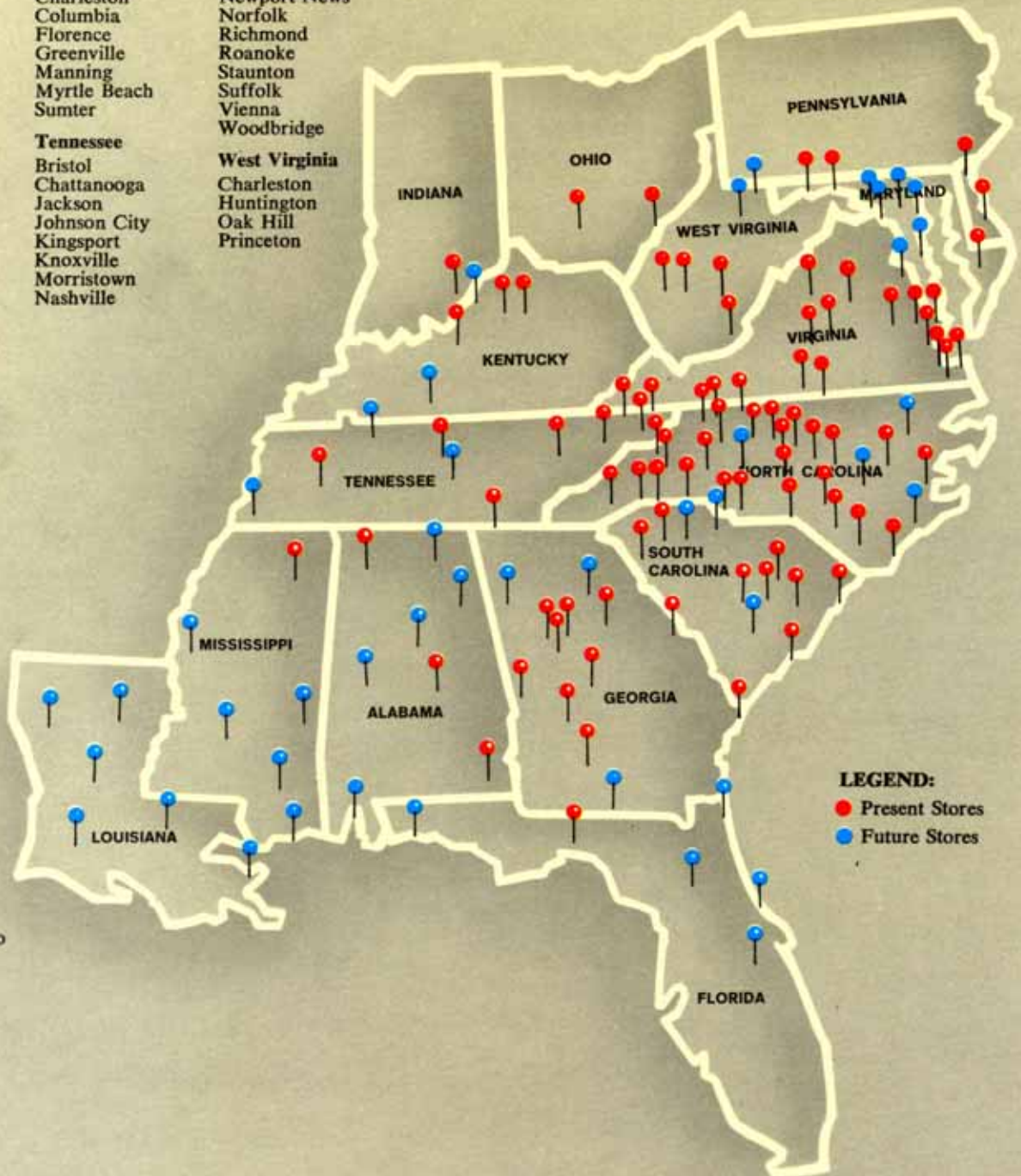
Bristol
Chattanooga
Jackson
Johnson City
Kingsport
Knoxville
Morristown
Nashville

Virginia

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

West Virginia

Charleston
Huntington
Oak Hill
Princeton



LEGEND:

- Present Stores
- Future Stores

Chairman's Letter to Shareholders

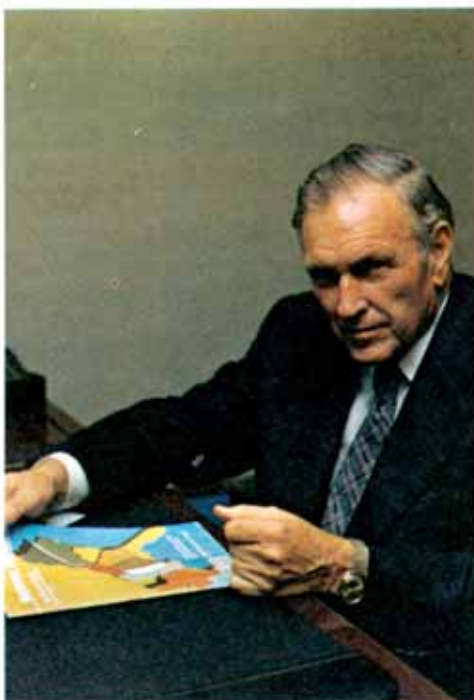
Fiscal 1972: This was a superlative year, one in which previous performance records in sales and earnings were surpassed, and in which positive new levels of market penetration and financial strength were attained. The economic climate in housing and in retailing has been good throughout the year and across the nation, and it has been excellent in the South. *Business Week's* cover article on September 2 discusses "The New Rich South, America's frontier for economic growth in the 1970's." The article goes on to say: "During the past decade — personal income, jobs, and markets all grew at a faster rate in the South than in the country as a whole. Such growth is producing a self-reinforcing effect that, barring some major disaster, will sustain the South as the nation's fastest-growing region for the next decade." Our marketing research figures substantiate this outlook, and are detailed throughout this report.

Sales: Lowe's jumped squarely into the ranks of the \$200,000,000 retailers, with a volume of \$234,556,000, an increase over the previous year of \$64,833,000 and 38%. For the second consecutive year, both the total sales volume and the dollar increase are new company records. Our sales have grown at average annual compound rates of 18.5% for the last 15 years, 21.8% for the last 10, and 25.3% for the last 5. No acquisitions have been made, so this accelerating growth is all internally generated.

Earnings: Our net earnings after taxes also set significant records, with the increase over the previous year exceeding two and a half million dollars, up from \$6,548,000 to \$9,121,000. Our net return on sales edged to a new record of 3.89%. Lowe's compound growth rate in earnings per share is 22.9% for the last 15 years, 23.6% for the last 10, and 26% for the last 5 years.

Taxes: Total taxes, as a percentage of earnings before taxes, were 50.27% in 1972 and 50.26% in 1971.

Dividends: This has been a year of action. On November 22, 1971, to



facilitate broader distribution of Lowe's stock, the Board of Directors declared a 50% stock dividend. On June 22, 1972, for the same reasons, the Board of Directors declared a 33 $\frac{1}{3}$ % stock dividend. The net effect was a 100% dividend. As a matter of historical record, here is the growth record of each original purchase of 100 shares of Lowe's:

Date	Action	Received	Total
Oct., 1961	Bought 100	100	100
May, 1966	100% Dividend	100	200
Nov., 1969	Stock Split	200	400
Dec., 1971	50% Dividend	200	600
Aug., 1972	33 $\frac{1}{3}$ % Dividend	200	800

During fiscal 1972, the cash dividends paid quarterly to shareholders totaled \$946,119. The May 1, 1972 dividend was Lowe's 44th consecutive quarterly cash payment, and there have been eleven consecutive annual increases in cash dividends, both in total dollar and in per share payments. To continue this record, in July, 1972 the indicated annual cash dividend rate per share was increased from 11¢ to 12¢.

Expansion: Lowe's opened twelve new stores in fiscal 1972, and all opening costs

and expenses have been charged against the 1972 Income Statement. One of these replaced an existing store facility in Charlottesville, Virginia. The other eleven were in new markets: Gastonia, and Morganton, North Carolina; Florence, South Carolina; Lynchburg, Virginia; Tupelo, Mississippi; Athens, and Macon, Georgia; Jackson, and Johnson City, Tennessee; Elizabethtown, Kentucky; and Clarksville, Indiana. Again this year, all these expansion locations are new-generation Lowe's stores, designed and built for superior customer service and greater sales volume. Although this new, larger store facility plan is just two years old, it has already been established in 25% of our total store locations.

Financial Comments: Your attention is invited to Lowe's strengthening financial position during a time of rapidly expanding volume. In the past two fiscal years, sales have increased by 83%, and earnings after taxes by 87%. Additions to Retained Earnings for the year have grown 103%, from \$4,026,000 in 1970 to \$8,174,000 in 1972, after the payment of \$1,853,000 in dividends. We do not contemplate any new public stock issue or other dilutionary financial offering, since Lowe's continues to demonstrate ability to generate the major portion of expansion funds internally. As in the past, these retained earnings will be augmented by long-term debt, primarily on real estate, and proceeds from exercise of employee stock options, and reinvested for growth.

Other: It is always a pleasure to express management's sincere appreciation to all Lowe's people — our shareholders, our employees, our customers, our suppliers, our associates and friends — for your continued confidence, support, dedication and drive. These are providing greater momentum and greater confidence in the continued growth and progress of Lowe's.

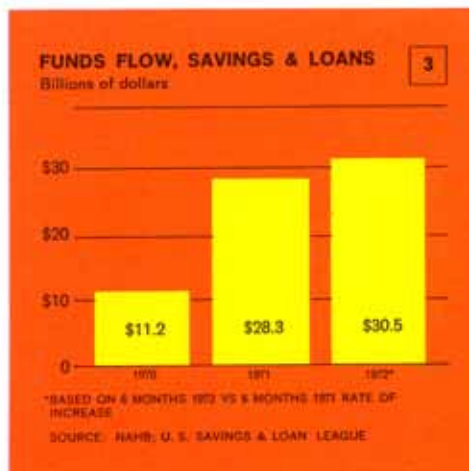
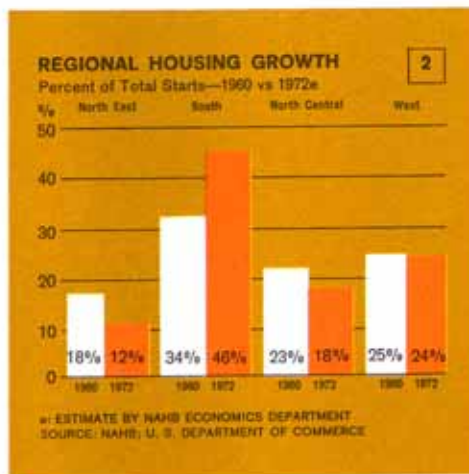
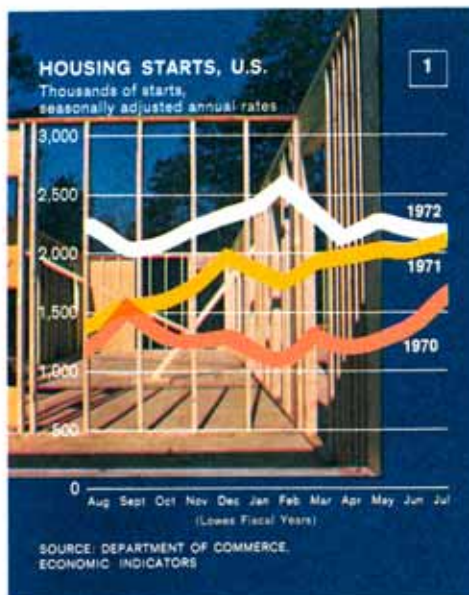
EDWIN DUNCAN
Chairman of the Board

President's Report

The Year in Review: Fiscal 1972 has been our busiest and most successful year. Virtually every important component of Lowe's contributed to the year's record breaking growth and development. However, a most significant factor was the excellent economic and business climate in the areas wherein we operate. Never before have both the housing business and the retail business exhibited such simultaneous strength. Graph 1 indicates the continuing high level of national housing starts. A 2,000,000 annual starts rate had never been achieved in the United States until May of 1971. The rate has not fallen below 2,000,000 any month since.

Regional Housing: These national figures include, but obscure, a growth in housing far more dramatic and far more important to Lowe's future. As shown in Table 2, the South is the only region in the country whose percentage of total housing activity is growing. By Department of Commerce definition, the "South" is the area shown on the map on page 2, less Pennsylvania, Ohio, and Indiana, plus Arkansas, Oklahoma and Texas. Housing starts in 1960 totaled 1,252,000. The South's 34% share was 426,000. The National Association of Homebuilders' Economic Department estimates 1972 housing starts in the South will be 46% of the 2,300,000 national starts we are estimating for the year. This would be 1,058,000, a dramatic increase of 148% from 1960.

Funds Flow: The maintenance of a high level of housing starts is dependent upon an adequate flow of permanent financing funds. The credit shortages of 1966-67 and 1970 severely curtailed residential housing construction. Savings and Loans, traditionally the principal channel of these funds from individual savings activity into home building, have had a remarkable turnaround from 1970. Chart 3 shows the large increase in 1971 over 1970. Through 6 months, 1972, the flow continues at ample pace to finance housing starts at present levels. Regional funds flow is shown on page 27.



Retail Trends: This has been a good year in retailing, also. Total national retail sales grew by 8.8% in 1971, exceeding \$400 billion for the first time. Durable goods sales increased 15.3% in 1971, compared with a recent average growth rate of 5.8%. Automotive sales were the group leader, but lumber and building material retail store sales increased 12.2%. And as Table 13 on page 22 shows, through six months of 1972, national lumber and building material retail sales are running 17% ahead of the same period in 1971.

Price Levels: Prices of construction materials have risen during this fiscal year. Table 4 traces the price index of certain major product groups. Table 9 on page 20 presents a more detailed treatment. The building boom has obviously brought a higher price level to building materials, with the latest 1972 index for all construction materials about 4½% higher than the 1971 index. In perspective, it has just now equalled the level of the consumer price index, after trailing it since 1968. We view this composite price index just as we do the recent rate of housing starts — not as being at an outrageously high and unsustainable level — but as having recovered to a normal marketing demand level from a previous artificial curtailment of demand caused by lack of housing funds. Of course individual product groups have different price movement patterns. Lumber and plywood are always seasonally volatile, and the Douglas Fir lumber index in Table 4 shows the largest price increase during the last two years, up about 26% in 1971, and about 12% this year. In 1970, it fell about 13%. This can affect operating margins. However, Lowe's inventory turnover is high, 7.6 times in 1972 compared with 7.3 in 1971, (and a median of 5.9 for lumber and building material dealers reported by Dun's Review). This allows us to move quickly and intelligently to meet market fluctuations, and to protect our operating margin positions.

PRICE INDEX RANGES

1967 = 100, Calendar Years

4

Consumer Price Index		All Construction Materials	
1970	116.3	1970	112.5
1971	121.3	1971	119.5
1972*	124.2	1972*	124.8
Lumber		Plywood	
1970	108.8	1970	108.5
1971	137.6	1971	114.7
1972*	153.7	1972*	128.7
Gypsum		Millwork	
1970	100.0	1970	116.0
1971	106.8	1971	120.7
1972*	113.9	1972*	126.1
Plumbing		Hardware	
1970	112.5	1970	112.9
1971	116.4	1971	117.7
1972*	118.7	1972*	119.5

AVERAGE, FIRST 3 MONTHS

SOURCE: CONSTRUCTION REVIEW, ECONOMIC INDICATORS

LOWE'S STORE SALES

5

	TOTAL SALES*	AVERAGE SALES PER STORE*
Fiscal 1969		
53 "OLD" STORES	\$116,850	\$2,200
5 NEW STORES	2,400	
58 TOTAL STORES	\$119,050	
Fiscal 1970		
57 "OLD" STORES†	\$122,540	\$2,150
7 NEW STORES	5,850	
64 TOTAL STORES	\$128,490	
Fiscal 1971		
64 "OLD" STORES	\$161,900	\$2,530
11 NEW STORES	7,820	
75 TOTAL STORES	\$169,720	
Fiscal 1972		
75 "OLD" STORES	\$228,830	\$3,051
11 NEW STORES	5,730	
86 TOTAL STORES	\$234,560	

*THOUSANDS OF DOLLARS, ROUNDED TOTALS
†ONE STORE CLOSED.

Store Performance: For the second successive year, our individual stores have achieved balanced performance and increased market penetration on a store by store basis. Every single store "beat last year," and every store but one recorded a new individual high in annual sales volume. As indicated in Table 5, the 75 stores that were open at the beginning of fiscal 1972 provided \$228,830,000 in total sales volume. This was a 35% increase over their 1971 total, and contributed \$59,110,000 or 91% of our total volume increase. As shown, the 11 new stores opened during the year provided \$5,730,000. Most of these stores opened late in the year and will provide additional sales growth in fiscal 1973, just as the 11 new stores of 1971 increased their volume from \$7,820,000 in 1971 to \$27,460,000 in 1972. Probably Lowe's most significant achievement in this fiscal year has been the second consecutive major increase in sales per store, up \$900,000, and 42% from fiscal 1970.

LOWE'S PRODUCT SALES*

6

	Fiscal 1970		Fiscal 1971		Fiscal 1972		
	Sales*	% of Total	Sales*	% of Total	Sales*	Change	% of Total
Category A	\$ 88,325	69%	\$118,880	70%	\$170,110	+43%	73%
Category B	40,175	31%	50,840	30%	64,450	+27%	27%
Totals	\$128,500	100%	\$169,720	100%	\$234,560	+38%	100%

*THOUSANDS OF DOLLARS, ROUNDED TOTALS

Marketing Mix: Table 6 is a summary of Lowe's product sales trends. Category A, Lumber and Building Materials, has grown from 69% of total sales in 1970 to 73% in 1972. Its 43% growth this year followed a 35% growth last year. Category B, all other merchandise, grew 27% in both 1971 and 1972. A more detailed presentation of our seven major merchandise categories, and totals and trends therein, is on pages 42 and 43.

Lowe's customer mix is shown in Table 7, and in more detail on page 32. PB represents professional buyers: builders, contractors, developers, etc. RC represents our retail customers. Although sales to professionals are booming, our retail sales are maintaining a strong growth pattern also, and at 38% of total provide greater balance than their 30% to 33% level of the mid-1960's.

Total customer transactions this year were 3,820,000, up 20%, and the average customer purchase was \$61.40, our highest average to date.

LOWE'S CUSTOMER SALES*

7

	Fiscal 1970		Fiscal 1971		Fiscal 1972		
	Sales*	% of Total	Sales*	% of Total	Sales*	Change	% of Total
Category PB	\$ 75,100	58%	\$104,050	61%	\$146,290	+41%	62%
Category RC	53,400	42%	65,670	39%	88,270	+34%	38%
Totals	\$128,500	100%	\$169,720	100%	\$234,560	+38%	100%

*THOUSANDS OF DOLLARS, ROUNDED TOTALS

PRESIDENT'S REPORT continued

Growth and Expansion: As shown on page 50, in 1960 Lowe's 15 stores did \$30,679,000 in sales, just over \$2,000,000 per store. By 1970, our 64 stores achieved \$128,491,000 in sales volume, again just over \$2,000,000 each.

Therefore, when in 1970 we announced an accelerated growth plan with the objective of adding \$200,000,000 in sales volume over the next five years, we called it "100 New Stores" since with historical wisdom, at a \$2,000,000 per store sales rate, it would require the tactic of 100 new stores to achieve the strategy of \$200,000,000 in new sales volume.

Two major developments have affected this growth plan. Our changed requirements for our new store facilities have caused longer lead times than we anticipated. Page 45 illustrates the total store requirements; 4 to 5 acres instead of 2 to 3, accessible retail locations on the growth side of town instead of industrial parks, more parking, 11,500 square foot sales floors instead of 6,000. Suitable locations at suitable prices are not numerous, and when found, must still clear through local zoning ordinances and regulations, at a painfully slow pace. We have increased our field expansion staff to cope with these problems.

However, the second major development is more significant, for it has propelled us past our sales growth objective. During late 1969 and early 1970, we implemented a number of changes in our marketing efforts and in our store sales organizations. These included expanding our sales force into two groups — one for professional buyers and one for retail customers — later adding salesladies to each store, longer store hours, more convenient retail credit, including Master Charge and BankAmericard, wider product selections, pre-ticketed merchandise and fast checkout counters, and many other updates. These changes were made to help combat the housing downturn in 1970, but have been most beneficial in the good market climate of the last two years. Specifically, sales per store rose 25% in 1971, to \$2,500,000.



Fiscal Year	Number of Stores	Total Area Sales Floors*	Average Sales Floor	Total Sales	Average Sales Per Square Foot**	Average Retail Sales Per Square Foot**
1969	58	316,000	5,450			
1970	64	366,000	5,700	\$128,491,000	\$376.00	\$157.00
1971	75	489,000	6,500	\$169,720,000	\$397.00	\$153.00
1972	86	635,000	7,400	\$234,560,000	\$417.00	\$157.00

*SQUARE FOOTAGE
**TOTAL SALES FOR YEAR, DIVIDED BY AVERAGE TOTAL SALES FLOOR AREA DURING YEAR.



With this increase, achieved for the first time in a decade, during 1972 we began to rethink our store building program — "Let's see, \$200,000,000 at \$2,500,000 per store is just 80 stores, and at \$3,000,000 per store. . . ." And we began to look at some of our existing stores, like Rockingham at the top of the page, and comparing their physical facilities and market penetration with those of our new store design, shown below. The limitations are obvious. Only so much merchandise can be displayed in 2,000 square feet, and only so much customer loyalty can be retained or deserved when operating in inefficient and antiquated facilities. So in order to strengthen our growth in sales per store, we have devoted time and funds to improve existing stores.

We relocated and rebuilt the Charlottesville store, and made major enlargements and improvements to four other locations. We now have 16 stores like Rockingham. They averaged \$1,979,000 per store last year. Further, another 24 stores are below our new standards in one aspect or another. We will improve them on a priority basis. Five replacement stores (including Rockingham) are under construction, and action will be initiated on more in 1973.

A measure of the results of these moves may be seen in the table on Sales Floor Growth. From 1970 to 1972, we opened 22 new large stores, instead of the 28 originally planned. This was a 34% growth in stores. However, these larger showrooms and our store improvement program increased total sales floor area by 73% in two years. And as the sales per square foot show, our customers have responded well to this store growth.

As we stated in our January 31 report, we believe that increased sales per store represents growth of the highest quality, with major implications for marketing penetration, risk, debt structure, cost control, and increased earnings. Therefore, we are acting to maximize these opportunities and optimize results through this balanced expansion program.



Lowe's Homestead: In November, 1970, we introduced an innovative marketing program, the Lowe's Homestead house. This is a low-cost home "package," with floor space of about 1,000 square feet. Through July, 1971, 660 units were sold for a sales volume of \$3,400,000. In fiscal 1972, 1,735 homes were sold, totaling \$10,160,000. The sales volume tripled, but the significance of the Homestead program is more far reaching. Here is a viable, profitable, systems approach to home building which is growing while highly-publicized (and some subsidized) modular and factory techniques are not succeeding to the extent originally anticipated.

Unlike many predecessors in the low-cost home business, the Lowe's Homestead package will build a complete home 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 basic Homestead plan offers a complete house from foundation to roof at a materials cost of about \$5.00 per square foot. Best of all from Lowe's standpoint, we have not had to acquire 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. Shown in these photographs (clockwise) are the 30 foot computer invoice, a load being assembled at the store, a delivery, and the home under construction.

Our original Homestead plan was expanded to a portfolio of 12 plans in 1972. For 1973, Marketing Manager Ben Phillips has introduced an augmented selection, including vacation homes, duplexes, townhouses, and apartments.

The enthusiastic reception and reaction given the Homestead program by the National Association of Homebuilders at the convention in Houston is additional proof that Lowe's Homestead is a dynamic new marketing concept in the building industry which will continue to grow in importance to our customers throughout Lowe's marketing areas.



PRESIDENT'S REPORT continued

Management Analysis: How does inventory turnover affect earnings per share? What does return on sales have to do with return on shareholder equity? How do the policies and performance of finance, sales, operations, marketing, and expansion really interact? To answer these questions, a framework formula is needed, one that can give arithmetically measurable results, plus insight into the relative importance of the causative factors. We use a formula like this for Lowe's, and part of it is shown in Table 10. The bottom line, Return on Shareholder Equity, may be derived by dividing Net Earnings by Shareholder Equity. But this approach provides no understanding of why and how this return was attained. It is better to "take it from the top" and think through each major variable. A full discussion of this formula, its major variables, and 16 yearly computations may be found on pages 48 to 50.

This formula can be extended to growth in earnings per share by taking into account dividends and all dilution factors expressed as a percentage of beginning shareholder equity.

In previous reports, we have expressed return on equity as a percentage of the average of the beginning and ending equity. It is a more "conservative" computation. Our 1972 return on average equity was 26.12%. Using average totals may be more accurate, but beginning totals are more useful. The reason is aligned with the concept of profitability accounting as opposed to custodial, or hindsight accounting. By using beginning totals, we can chart objectives at the start of each period. We know now that our fiscal 1973 beginning assets are \$89,450,000. To maintain our \$3.40 asset turnover rate will require \$304,000,000 in volume. Each major component factor can be forecast. By using monthly and quarterly rates, we check our progress during the year while action can still be taken to affect results.

An understanding of this framework and these basic variables will reveal how inventory turnover can increase while asset turnover declines, or vice-versa. Our

	1972	1971	1970
Asset Turnover (Sales ÷ Assets) Times	\$ 3.40	\$ 3.43	\$ 3.09
Return on Sales (Net Earnings ÷ Sales) Equals	3.89%	3.00%	3.70%
Return on Assets (Net Earnings ÷ Assets) Times	13.20%	13.25%	11.72%
Leverage (Assets ÷ Equity) Equals	2.26	1.99	1.99
Return on Shareholder Equity (Net Earnings ÷ Equity)	29.81%	26.31%	23.94%

NOTE: COMPONENTS ARE ROUNDED, THEREFORE MULTIPLIED VERSUS DIVIDED TOTALS VARY SLIGHTLY.



Fiscal Year	Sales (\$M)	Earnings (\$M)	Average No. Lowe's People	Per Person Sales	Per Person Earnings
1972	\$234,566	\$9,121	2,351	\$99,769	\$3,880
1971	\$169,723	\$6,546	1,871	\$90,712	\$3,500
1970	\$126,491	\$4,870	1,560	\$82,366	\$3,122
1969	\$119,053	\$4,608	1,337	\$89,045	\$3,447
1968	\$ 97,031	\$3,593	1,120	\$86,634	\$3,208

objective is not to get hung up on a single factor at the expense of the others, but to manage each of them during changing market conditions to optimize returns on assets and equity and consequent growth in earnings per share.

Productivity: Turnover, leverage, and mathematical models are largely conceptual. Lowe's real and unique asset are our people, their personality, their drive, their motivation, and their productivity. Evidence of their success is the record of increasing productivity shown in Table 11. Since 1968, our employees have more than doubled, yet their efficiency and performance has increased. A comparison with other companies is shown on page 45.

Lowe's Presidency: These five men, members of Lowe's Board of Directors, constitute the Office of the President. This group, which is now in its 15th year together, is shown here at Lowe's North Wilkesboro, North Carolina General Office. Pictured from left are: Petro Kulynych, Leonard Herring, Joe Reinhardt, Bob Strickland and John Walker.

Current Directions and 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 the new fiscal year has opened very strongly, and all the ingredients seem to be present for another year of record growth at Lowe's."

The quote is from last year's annual report, and most of the positive elements remain. To them we are adding new programs, including vastly expanded millwork component sub-assembly at our stores, Lowe's "Improver" plan for product installation, renewed emphasis on mobile homes, and Handyman projects to complement our Lowe's-It-Yourself product line. Our first quarter results will be excellent, and we are very optimistic about fiscal 1973 and continuing growth at Lowe's.

Audited Financial Statements

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

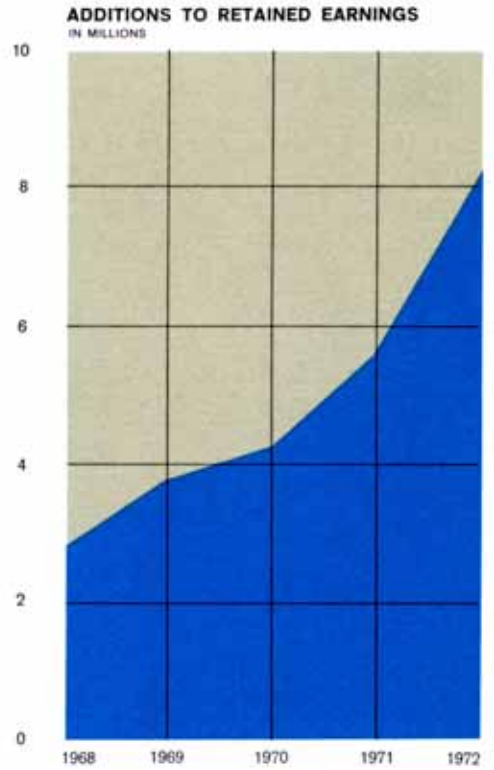
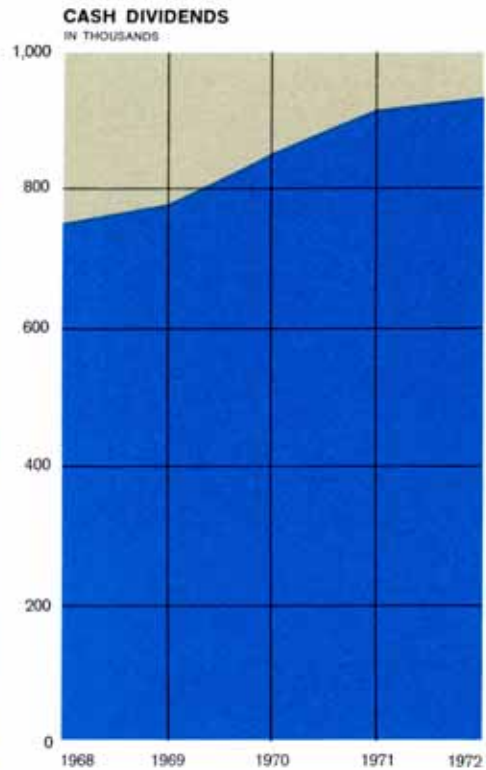
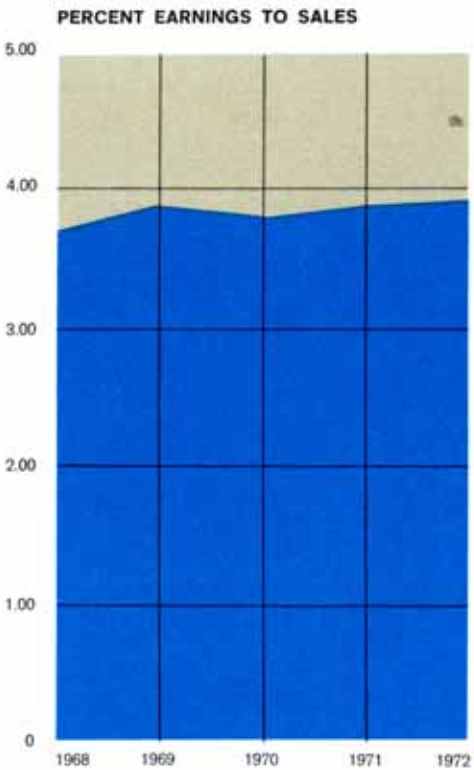
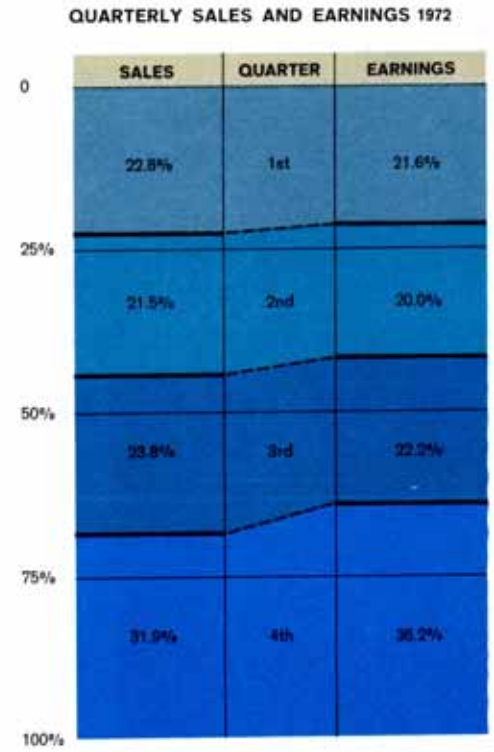
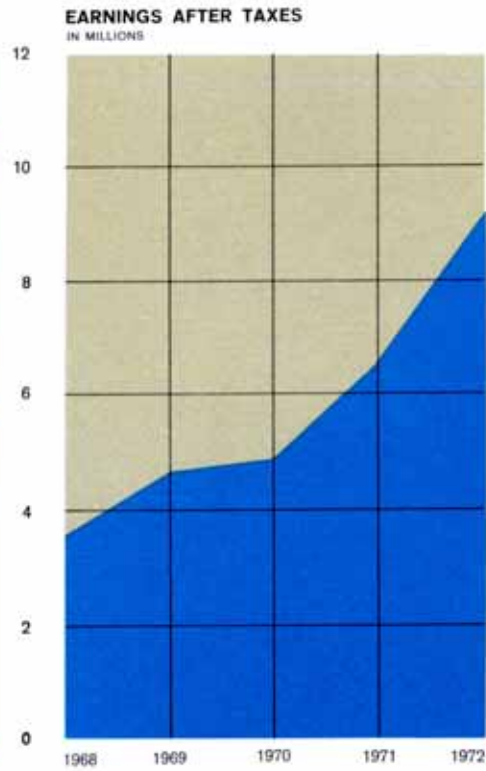
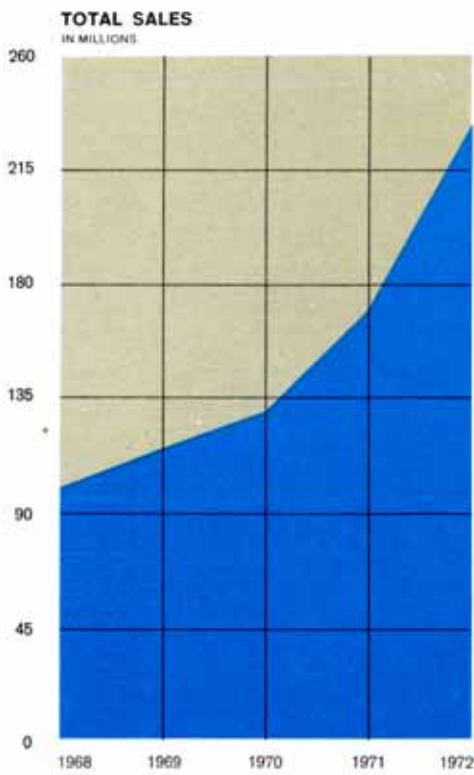
We have examined the consolidated balance sheets of Lowe's Companies, Inc. and subsidiaries at July 31, 1972 and 1971, and the related consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements referred to above present fairly the consolidated financial position of Lowe's Companies, Inc. and subsidiaries at July 31, 1972 and 1971, the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

J. A. GRISETTE & CO.
Certified Public Accountants

Lenoir, North Carolina
September 29, 1972

Sales and Earnings Performance Graphs



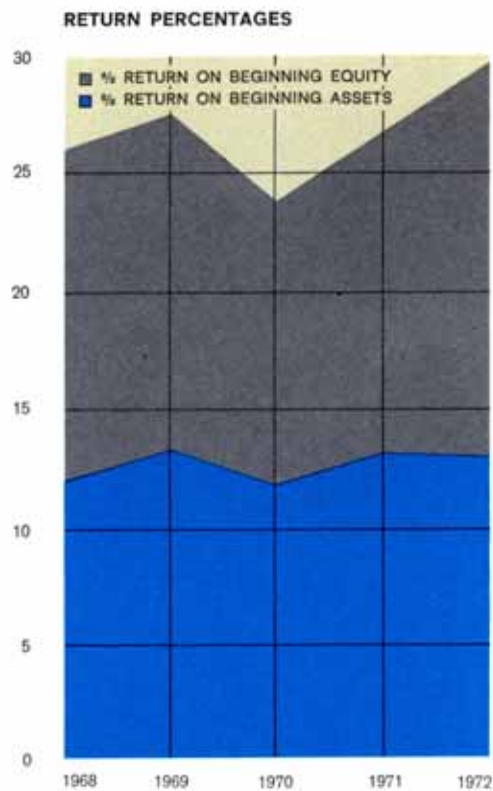
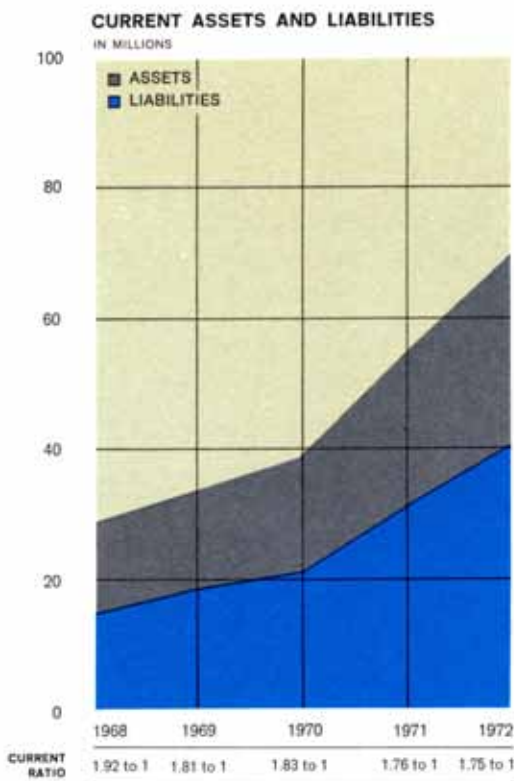
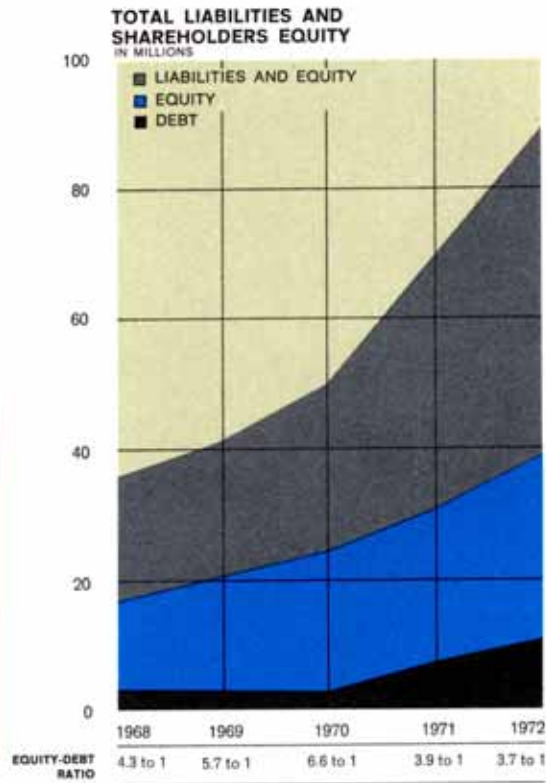
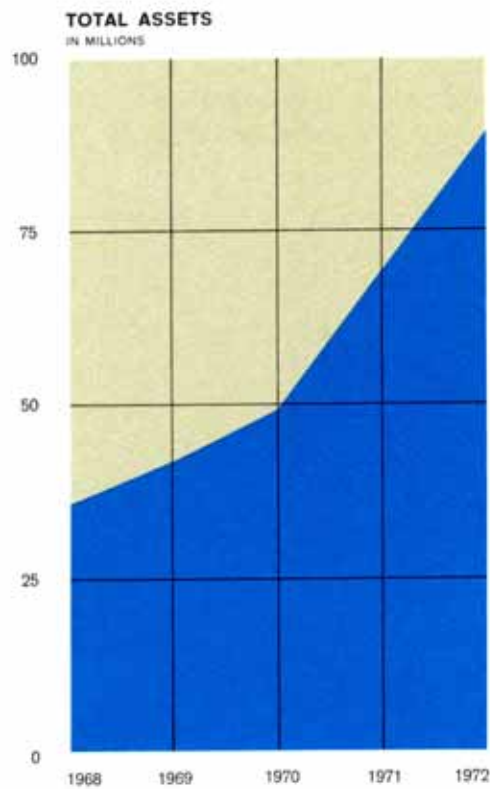
Consolidated Statement of Current and Retained Earnings

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

Year Ended July 31, 1972 with Comparative Figures for 1971	1972	1971
CURRENT EARNINGS		
Income:		
Net Sales	\$234,556,133	\$169,722,859
Other Income	160,207	
Total Income	<u>\$234,716,340</u>	<u>\$169,722,859</u>
Costs and Expenses:		
Cost of Sales, Buying, Warehousing and Occupancy	\$189,001,525	\$137,073,542
Advertising, Selling, Administrative and General Expenses	20,393,995	14,948,113
Depreciation and Amortization (Note 2)	2,295,310	1,626,561
Contribution to Employees' Profit-Sharing Plan (Note 8)	2,667,382	1,569,121
Interest and Loan Expense	740,116	479,177
Bad Debts	1,475,444	998,875
Total Costs and Expenses	<u>\$216,573,772</u>	<u>\$156,695,389</u>
Pre-Tax Earnings	\$ 18,142,568	\$ 13,027,470
Provision for Income Taxes	9,021,981	6,479,881
Net Earnings	<u>\$ 9,120,587</u>	<u>\$ 6,547,589</u>
Per Share (Note 6):		
Average Shares Outstanding	8,434,380	8,416,078
Net Earnings	<u>\$ 1.08</u>	<u>\$.78</u>
RETAINED EARNINGS		
Balance at Beginning of Year	\$ 27,848,115	\$ 22,207,553
Additions:		
Net Earnings	\$ 9,120,587	\$ 6,547,589
Less Cash Dividends	946,119	907,027
Net Additions	<u>\$ 8,174,468</u>	<u>\$ 5,640,562</u>
Deductions:		
Stock Dividends (Note 5)	\$ 2,109,492	\$ —
Balance at End of Year	<u>\$ 33,913,091</u>	<u>\$ 27,848,115</u>

SEE NOTES TO FINANCIAL STATEMENTS.

Balance Sheet Graphs



Consolidated Balance Sheet

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

July 31, 1972 with Comparative Figures at July 31, 1971

ASSETS

Current Assets:

Cash	\$ 7,802,012	\$ 6,303,588
Accounts Receivable Less Allowance for Doubtful Accounts—1972—\$1,687,675; 1971—\$937,955	27,439,621	20,944,011
Inventories at the Lower of Cost (First-In, First-Out) or Market	34,474,881	27,332,077
Prepaid Expenses and Other Current Assets	393,597	331,268
Total Current Assets	<u>\$70,110,111</u>	<u>\$54,910,944</u>

Property, Improvements and Equipment (Note 2):

At Cost Less Accumulated Depreciation— 1972—\$7,226,233; 1971—\$5,463,728	19,330,239	14,087,212
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Other Assets:

Unamortized Loan Expense	9,798	11,228
Sundry Assets at Cost	35,278	76,376
Total Assets	<u>\$89,485,426</u>	<u>\$69,085,760</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

Accounts Payable—Trade	\$27,683,888	\$21,998,684
Long-Term Debt Due Within One Year	672,819	478,622
Accrued Expenses	4,839,275	3,321,677
Provisions for Employees' Profit-Sharing	1,935,580	1,105,051
Provisions for Income Taxes (Note 4)	5,085,720	4,293,451
Total Current Liabilities	<u>\$40,217,282</u>	<u>\$31,197,485</u>

Long-Term Debt (Note 3):

Notes Payable	10,013,826	7,295,960
Total Liabilities	<u>\$50,231,108</u>	<u>\$38,493,445</u>

Shareholders' Equity (Notes 5 and 7):

5% Preferred Stock—\$100 Par Value, Authorized 500 Shares; Issued and Outstanding 450 Shares	\$ —	\$ 45,000
Common Stock—\$.50 Par Value, Authorized 10,000,000 Shares; Issued and Outstanding 1972— 8,454,705 Shares, 1971—4,209,559 Shares	4,227,353	2,104,779
Capital Surplus	1,113,874	594,421
Retained Earnings	33,913,091	27,848,115
Total Shareholders' Equity	<u>\$39,254,318</u>	<u>\$30,592,315</u>
Total Liabilities and Shareholders' Equity	<u>\$89,485,426</u>	<u>\$69,085,760</u>

SEE NOTES TO FINANCIAL STATEMENTS.

Consolidated Statement of Changes in Financial Position

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

Year Ended July 31, 1972 with Comparative Figures for Four Prior Years

AMOUNTS IN THOUSANDS; () INDICATES A DECREASE

	Five Year Totals		7-31-72		7-31-71		7-31-70		7-31-69		7-31-68	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
SOURCE OF FUNDS:												
Net Earnings for the Year	\$28,739	66.9	\$ 9,121	62.2	\$ 6,548	53.6	\$4,870	67.5	\$4,608	106.4	\$3,592	78.9
Depreciation and Amortization of Fixed Properties	6,920	16.1	2,295	15.6	1,626	13.3	1,221	16.9	951	22.0	827	18.2
Total Funds from Operations	\$35,659	83.0	\$11,416	77.8	\$ 8,174	66.9	\$6,091	84.4	\$5,559	128.4	\$4,419	97.1
Proceeds from Sale of Stock Under Employee Stock Options	834	1.9	532	3.6	63	.5			13	.3	226	4.9
Increase in Long-Term Debt	6,486	15.1	2,718	18.6	3,980	32.6	1,122	15.6	(1,242)	(28.7)	(92)	(2.0)
Total Funds Available	\$42,979	100.0	\$14,666	100.0	\$12,217	100.0	\$7,213	100.0	\$4,330	100.0	\$4,553	100.0
APPLICATION OF FUNDS:												
Retirement of Preferred Stock	\$ 45	.1	\$ 45	.3	\$		\$		\$		\$	
Dividends Paid	4,233	9.8	946	6.5	907	7.4	844	11.7	780	18.0	756	16.6
Fixed Assets Acquired—Net	20,520	47.6	7,538	51.4	5,324	43.6	3,692	51.2	2,323	53.7	1,643	36.1
Other Funds Applied—Net	(50)	(.1)	(42)	(.3)	(60)	(.5)	(61)	(.8)	5	.1	108	2.4
Total Applied	\$24,748	57.4	\$ 8,487	57.9	\$ 6,171	50.5	\$4,475	62.1	\$3,108	71.8	\$2,507	55.1
Increase in Working Capital	\$18,231	42.6	\$ 6,179	42.1	\$ 6,046	49.5	\$2,738	37.9	\$1,222	28.2	\$2,046	44.9
CHANGES IN COMPONENTS OF WORKING CAPITAL:												
Current Assets:												
Cash	\$ 2,986		\$ 1,498		\$ 1,645		\$ 18		\$ 510		\$ (685)	
Receivables	17,764		6,495		6,057		328		2,679		2,205	
Inventories	24,943		7,143		8,292		4,857		1,708		2,943	
Other Current Assets	250		62		38		242		(82)		(10)	
Totals	\$45,943		\$15,198		\$16,032		\$5,445		\$4,815		\$4,453	
Current Liabilities:												
Accounts Payable and Other Accrued Liabilities	\$24,565		\$ 8,033		\$ 8,522		\$4,233		\$1,961		\$1,816	
Notes Payable	239		194		3		(979)		959		62	
Income Taxes	2,908		792		1,461		(547)		673		529	
Totals	\$27,712		\$ 9,019		\$ 9,986		\$2,707		\$3,593		\$2,407	
Increase in Working Capital	\$18,231		\$ 6,179		\$ 6,046		\$2,738		\$1,222		\$2,046	

Notes to Financial Statements

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

Note 1—Principles of Consolidation:

The consolidated financial statements include the accounts of all subsidiaries, all of which are wholly owned. There are eighty-six subsidiary corporations: eighty-three store companies, a lumber company, an advertising agency and a real estate company. There were twelve new subsidiaries organized during the year, ten of which began operations before July 31, 1972. One store company organized in 1971 also began operations in 1972. All material intercompany balances and transactions have been eliminated.

Note 2—Properties and Depreciation:

The company generally computes depreciation on fixed properties at accelerated rates for statement and income tax purposes. Leasehold improvements generally are amortized on a straight line basis over the term of the lease. Depreciation and amortization charged for 1972 was \$2,295,310 and for 1971 was \$1,626,561. The fixed properties and accumulated depreciation are summarized by major classes as follows:

	1972		1971	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 2,851,402	\$	\$ 2,342,306	\$
Buildings ...	11,269,163	1,230,579	7,403,538	1,028,061
Equipment ..	3,251,841	1,705,097	2,581,920	1,355,724
Transportation	5,549,429	3,200,302	4,334,839	2,209,948
Leasehold ..	3,634,637	1,090,255	2,888,337	869,995
Totals ..	<u>\$26,556,472</u>	<u>\$7,226,233</u>	<u>\$19,550,940</u>	<u>\$5,463,728</u>

Note 3—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	\$ 350,000
Secured Notes Maturing 1979 to 1987	
Interest Rates 5 ⁵ / ₈ % to 8 ⁵ / ₈ %	5,342,564
Loans from Bank:	
Unsecured 7% Note Maturing 1975	3,000,000
Secured Notes Maturing 1973 to 1986	
Interest Rates 6% to 6 ¹ / ₂ %	1,792,868
Various Other Notes:	
Unsecured Notes Maturing 1972 to 1980	
Interest Rates 4% to 6%	51,213
Secured 8% Note Maturing 1974	150,000
Total	<u>\$10,686,645</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, 1972, there were accumulated earnings of \$18,340,000 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:

1973—\$672,819; 1974—\$1,254,272; 1975—\$3,155,261.

Note 4—Income Taxes:

Agents of the Internal Revenue Service have completed audits of the Company and its subsidiaries for all years ending within the fiscal years July 31, 1965 through July 31, 1971. Subsequent to July 31, 1972, agreements have been reached with the Service covering all Federal income tax liabilities of the Company and its subsidiaries for all years through July 31, 1971. Provisions are adequate to cover the assessments for the years under examination.

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 procedure has been approved by the Internal Revenue Service for the year ended July 31, 1971 and all prior years. Under the Tax Reform Act of 1969 a corporation and its subsidiaries will be limited to one \$25,000 surtax exemption for all years beginning after December 31, 1974. The Act provides for a phase out of the additional exemptions over a six-year period beginning January 1, 1970. With the present number of subsidiaries, the phase out provisions could increase the consolidated Federal income taxes of the Company and its subsidiaries approximately \$70,000 each year through July 31, 1975.

Accounting Principles Board Opinion 23 requires the parent company to make provisions for income taxes on subsidiary undistributed earnings, which are available

Note 4—Income Taxes—Continued:

for remittance to the parent company. Income tax provisions covering approximately \$5,300,000 of undistributed subsidiary earnings have been made by the Company. It is the opinion of management that remittance to the Company of the remaining undistributed subsidiary earnings approximating \$28,300,000 will be indefinitely postponed and consequently no provision has been made for income taxes on these earnings.

Investment tax credit flow through for the years was not material.

Note 5—Shareholders' Capital Accounts:

The following is a summary of the changes in the shareholders' capital accounts during the year:

	Preferred Stock	Common Stock	Capital Surplus
Balance August 1, 1971 ...	\$ 45,000	\$2,104,779	\$ 594,421
Issuance of Shares:			
Exercise of Employee Stock Options		13,082	519,453
Stock Dividends		2,109,492	
Retirement of Preferred Stock	(45,000)		
Balance July 31, 1972	<u>\$</u>	<u>\$4,227,353</u>	<u>\$1,113,874</u>

Note 6—Earnings per Share:

Earnings are based on the average daily outstanding shares. The figures for the year ended July 31, 1971 have been restated to reflect stock dividends of one share for each two shares on December 6, 1971 and one share for each three shares on July 31, 1972.

Note 7—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 400,000 shares of the unissued common stock of the Company to be issued to employees pursuant to options to be granted under the plan. Options are granted 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, 1972 options had been granted for 314,176 shares at \$14.75 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:

Option Price per Share	\$ 14.75
Options Exercisable at July 31, 1972	83,006
Options Exercised Prior to July 31, 1971	4,262
Options Exercised Year Ended July 31, 1972	36,104
Shares Forfeited	33,716
Options Outstanding July 31, 1972	<u>240,094</u>

The market value of the shares acquired under the options during the year varied from \$35.00 to \$66.00. All figures have been adjusted to give effect to stock dividends since the date the options were granted.

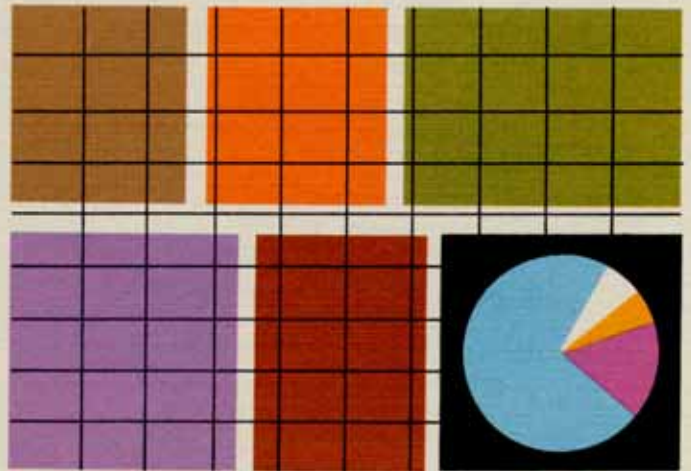
Note 8—Employees' Profit-Sharing Plan:

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. Provisions for payments under the plan amounted to \$2,667,382 for 1972 and \$1,569,121 for 1971. The trust created by the plan holds approximately 31% of the outstanding shares and is the Company's largest shareholder.

Note 9—Long-Term Leases:

Lowe's Companies, Inc. and subsidiaries have thirty-six rental leases expiring more than three years after July 31, 1972, with aggregate minimum annual rentals of approximately \$388,000. Four of the leases expire after 1990; none of the others extend beyond 1983 except by option of the Company.

Market Dimensions



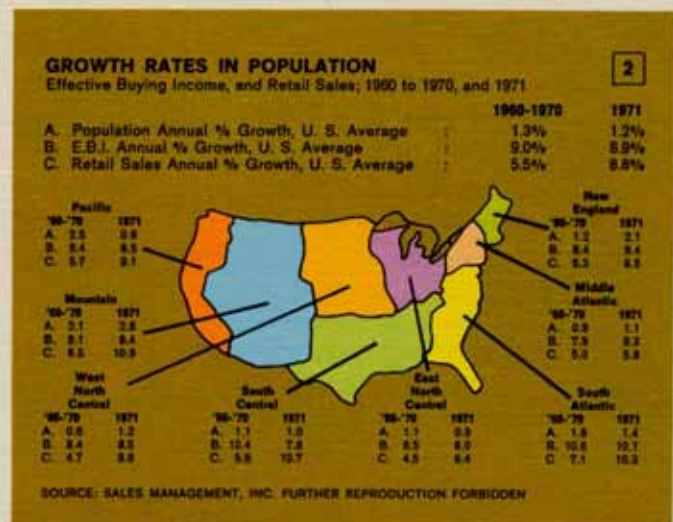
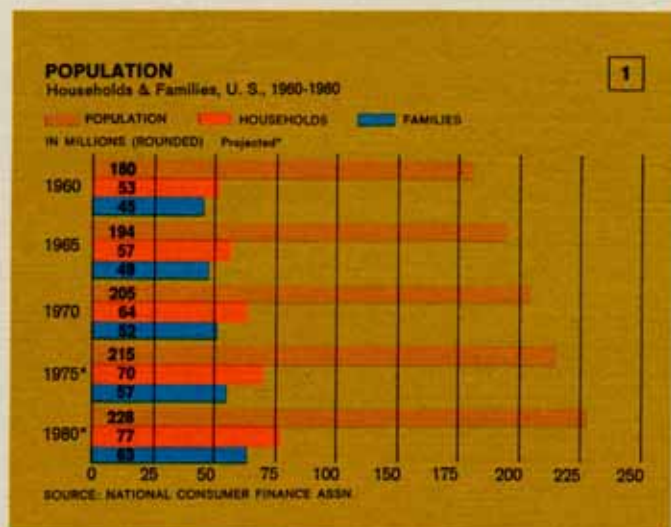
Marketing research at Lowe's focuses on the broad markets we serve. The mission is to perceive opportunities, to forecast changes, and to measure performance. In the next six pages, we summarize the fundamental marketing dimensions for Lowe's opportunities, both as presently constituted and as projected by knowledgeable outside observers. We believe this will help you position Lowe's in America's economic mainstream, for a clearer perspective of our future possibilities.

POPULATION & GROWTH

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. From 1960 through 1970, population increased by 14%, passing the 200,000,000 mark. During the same period, households increased by 20%, improved economic conditions probably facilitating additional household formation, since the increase in families was only 16%. The average number of persons per household declined from 3.4 to 3.2. By 1980, the total population is expected to grow by only 11%, to 228,000,000. The rate of new family formation is projected to remain the same, for an 11% increase. However, the total household forecast of 77,000,000 represents another 20% increase. This projects another decrease in average number of persons per household to 2.9.

Growth Rates in Population: The average population trends shown for the nation vary significantly within the geographic regions and divisions of the United States. 83 of Lowe's 86 stores are located in the Southern region, 68 in the South Atlantic division, and 15 in the East South Central division. Shown in Chart 2 are average annual growth rates in population, buying income, and retail sales, and a study of these differing growth rates provides insight into the economic health of different sections of the country. In general, the West and the South are America's growth areas. The South Atlantic area is most pertinent to our present stores, and the population growth rate in the '60's exceeded the national average by 38%. The 10% growth rates in effective buying income are not equaled outside the Southern region. And this income growth has been getting translated into increased retail sales, with growth rates here also leading the nation.

Regional Demographics: Chart 2 focused on the rates of growth. However, boys normally outgrow men, therefore a quantification of these marketing factors is apropos. Chart 3 summarizes the 1970 totals and presents a 1980 forecast. The South emerges as the most populous region of the country. Its 64,400,000 population is 31% of the nation's total. Its continued growth in retail sales has reached an annual total of \$113.8 billion, edging ahead of the Midwest's total for the first time, and 29% of the nation's total. In effective buying income, the region accounts for \$197 billion, 27% of the nation's total. These three percentages show that on a per capita basis, income and retail sales in the South still trail national averages. Continued growth in buying income is forecast for the decade of the '70's, to a total of \$278 billion. The growth percentage projection for Lowe's prime marketing area is surpassed only by the Pacific region.



REGIONAL DEMOGRAPHICS, 1971

Region	Population (000,000)	Retail Sales (000,000)	Effective Buying Income (000,000)	A 1980 Forecast	
				Effective Buying Income (000,000)	Projected Growth %
New England	12.1	\$ 23.4	\$ 48.8	\$ 64.6	38.6
Middle Atlantic	37.7	70.5	153.0	206.9	35.2
NORTHEAST	49.8	\$ 93.9	\$199.8	\$ 271.5	36.0
South Atlantic	31.5	57.3	101.5	142.8	40.7
East South Central	13.0	21.1	35.1	50.0	42.4
West South Central	19.9	35.4	60.8	85.6	41.5
SOUTH	64.4	\$113.8	\$197.1	\$ 278.4	41.2
Mountain	8.7	16.2	27.1	37.8	39.5
Pacific	27.1	56.0	106.7	153.2	43.8
WEST	35.8	\$ 72.2	\$133.8	\$ 191.0	42.1
West North Central	16.8	33.3	56.9	77.7	36.5
East North Central	40.9	79.5	150.9	210.1	39.2
MIDWEST	57.5	\$112.8	\$207.8	\$ 287.8	38.5
United States	207.5	\$382.8	\$738.3	\$1,028.7	39.3

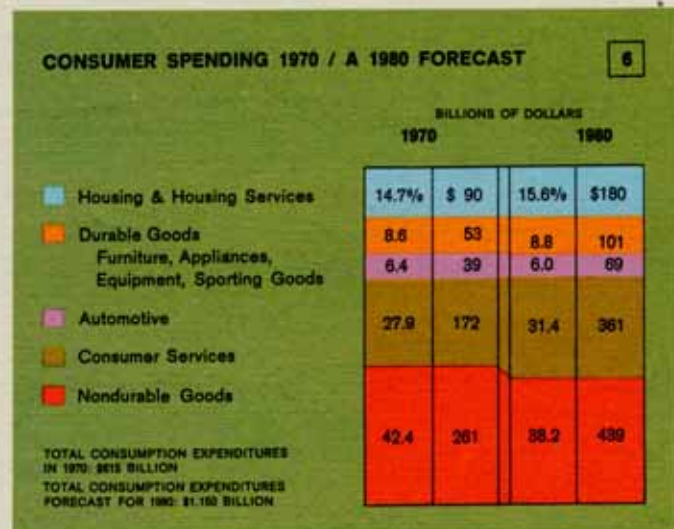
SOURCE: SALES MANAGEMENT, INC. FURTHER REPRODUCTION FORBIDDEN

MONEY & SPENDING

Gross National Product: America's most publicized economic indicator is the total of goods and services known as GNP. As indicated in Chart 4, this bellweather measure passed the trillion dollar mark during 1971 and in 1972 is climbing towards 1.2 trillion. Also shown is the concurrent growth pattern in disposable personal income. Its total, \$744 billion in 1971, was 71% of GNP. Portrayed next is the increment of personal savings, which rose to unprecedented levels in 1970 and 1971. The savings rate has a two-edged effect on Lowe's business. When it rises, Savings and Loan deposit increases help the housing business, but too high a rate of savings dampens retail purchases of consumer durables. At present levels, the net effect of current savings and spending rates are favorable for Lowe's. Personal consumption expenditures represent the total spending for durable goods, non-durable goods and services. Personal consumption expenditures in 1971 were \$665 billion.

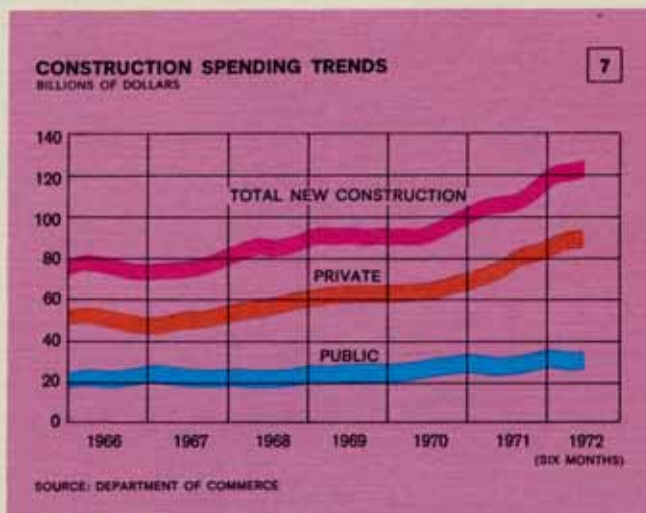
Income Disposition Trends: Chart 5 details the growth in dollars of Personal Consumption Expenditures and Savings during the 1960's, and the varying percentage trends of the major spending components. Non-durable goods were up 75% in dollars from 1960 to 1970, but down from 44.2% to 39.4% of the total, and down further in 1971 and 1972 on a percentage basis. Durable goods dollar purchases increased 96% during the ten years, and its percentage of total has increased again in 1971 and 1972. The latest figures represent a 25.9% increase over the 1970 rate, to a going rate of \$113.9 billion, surpassed non-durable goods in dollar total in 1971, and has continued to grow during 1972. Spending for Services increased 104% in the decade, and demand remains strong. Savings dollars were up a whopping 218% from 5% of total in 1960 to 8.2% in 1970. The savings rate has moderated in 1972, but a \$50 billion rate is healthy.

Consumer Spending: Chart 6 presents a slightly different and more detailed division of the components, totaling \$615 billion in personal consumption expenditures. Lowe's present marketing strategy, product line, services, and customer mix place us in the segments represented by Housing and Non-automotive Durable Goods. In 1970, these totaled 23.3% and \$143 billion. The 1980 forecast projects an 87% increase in personal consumption expenditures, to \$1,150 billion. However, this is exceeded by the projected 125% increase in the Lowe's marketing sectors. Housing and Non-automotive Durable Goods are estimated to grow to \$281 billion, 24.4% of the total. Besides this 125% growth potential, nothing is keeping us from expanding our marketing scope by augmenting our range of goods and services offered. The trends and outlook here remain favorable for continuing growth in the field of consumer spending.



CONSTRUCTION & HOUSING

Construction Spending: National trends in construction spending are shown in Chart 7. During 1971, the total spending rate passed the \$100 billion level, back again to about 10.4% of the Gross National Product from 9.6% in 1970. In June of 1972, the rate was 10.8% of GNP, at \$123.3 billion, indicating the continued surge in construction spending. 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. Many structural changes in governmental and private home financing programs should help alleviate this problem in the future. Trends in private and public construction are also shown in Chart 1. Of course, trends in private construction are most relevant to Lowe's marketing. Private construction totalled \$79.5 billion in 1971, and the June, 1972 going rate was \$93.3 billion.



Construction Spending Components: Chart 8 presents totals and trends of the major components of construction spending from 1966 through 1971, the 5 year annual compound growth rates of each, and the changes through June, 1972. The impact of governmental policy on this industry is clearly indicated by the 1967 figures, when governmental construction accounted for one dollar spending in three, competing indirectly at least for available funds, at the expense of new housing. Its lower growth rate since then has facilitated private sector improvement. New housing has been the most volatile performer, declining in total dollars in 1966, 1967, and 1970 from the previous year. Its percentage of total construction spending has varied substantially, but its turnaround in 1971 and 1972 gives it the highest growth rates in the chart, and the largest percentage of the total. At Lowe's, we think that is a proper state of affairs!

CONSTRUCTION SPENDING COMPONENTS
BILLIONS OF DOLLARS

	1966	1967	1970	1971	5 Year C.G.R.†	1972*	'71-'72* Change
A. Government	\$24.0	\$25.5	\$28.1	\$ 29.9	4.5%	\$ 30.0	
B. New Housing	19.4	19.0	24.3	34.0	12.5%	43.6	+25%
C. Remodeling**	6.3	6.6	7.8	8.2	5.4%	9.4	+15%
D. Commercial & Industrial	13.1	13.2	16.3	17.0	5.4%	18.7	+10%
E. Other	13.2	13.2	17.8	19.4	8.0%	21.6	+11%
Total	\$76.0	\$77.5	\$94.0	\$109.4	7.5%	\$123.3	+13%

*ANNUAL RATE JUNE, 1972
†COMPOUND GROWTH RATE

**UNDERSTATED, APPARENTLY DUE TO STATISTIC-GATHERING METHOD USED. SEE TABLE, PAGE 22

SOURCE: ECONOMIC INDICATORS

Cost and Price Trends: The changing and levels and trends of construction costs and prices are portrayed in Chart 9, along with price indexes for all consumer goods, all durable goods, and construction labor for comparative purposes. The consumer price index continues upward although perhaps at a slightly slower rate of increase. Durable goods prices also are continuing to rise, spurred by the increased demand discussed in Chart 5. Construction labor maintains a sharp increase. Construction materials in the aggregate have finally caught up with the Consumer Price Index. Although fir lumber, asphalt roofing, and others have high short-term price increases, some of which will probably change, we believe that the basic price levels of construction materials will hold. Many of them have had depressed price levels for years compared to other price trends in the nation.

TRENDS, CONSTRUCTION COSTS AND PRICES
Index: 1967 = 100

	Consumer Price Index	All Durable Goods	Construction Labor*	All Construction Materials	Fir Lumber	Plywood
1967	100.0	100.0	100.0	100.0	100.0	100.0
1968	104.2	103.1	106.6	105.6	120.3	115.7
1969	109.8	107.0	115.4	111.9	151.7	122.5
1970	116.3	111.8	128.8	112.5	108.8	108.5
1971	121.3	116.5	143.0e	119.5	137.6	114.7
1972**	124.2	117.8	149.0e	124.8	153.7	126.7

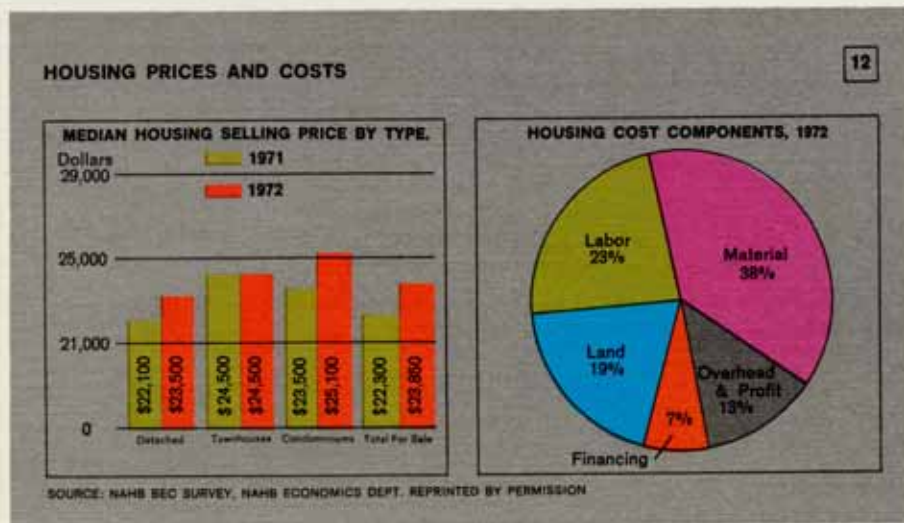
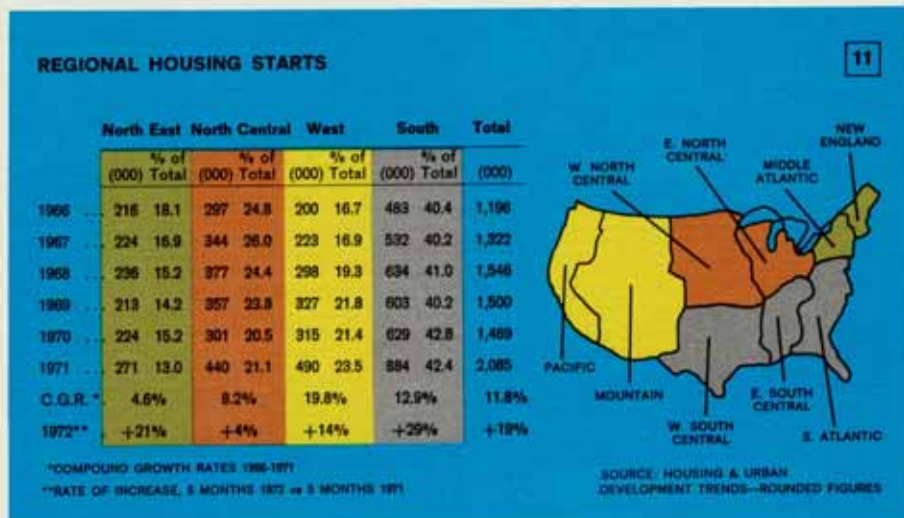
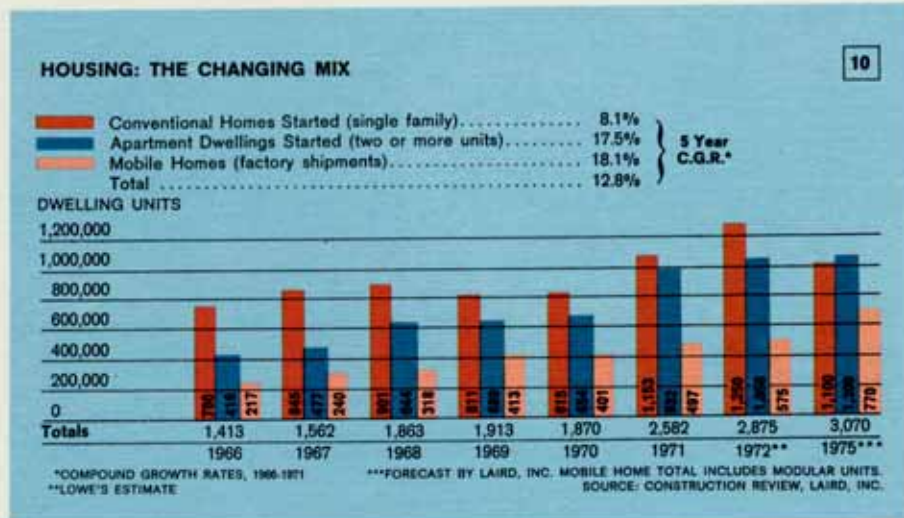
	Millwork	Gypsum	Asphalt Roofing	Plumbing	Brick	Hardware
1967	100.0	100.0	100.0	100.0	100.0	100.0
1968	105.8	103.6	104.0	103.3	103.4	101.7
1969	117.8	103.6	103.4	107.3	107.8	105.4
1970	116.0	100.0	101.8	112.5	112.2	112.9
1971	120.7	106.8	126.5	116.4	117.4	117.7
1972**	126.1	113.9	133.4	118.7	121.0	119.5

*UNION WAGE RATES, ALL BUILDING TRADES
**1972 3 MONTH AVERAGE INDEXES
eCONSTRUCTION REVIEW ESTIMATES
SOURCE: CONSTRUCTION REVIEW

The Housing Mix: Chart 10 presents an interesting picture of growth. When Washington suggested 2,400,000 new housing units per year for 10 years, many were skeptical, citing potential shortages of financing, demand, labor, and organization. The Bureau of Domestic Commerce forecast a 1975 rate of 2,525,000 starts, including modular homes. The 1971 totals surpassed both these figures. The going rate in 1972 is approaching the prescient 1975 forecast made by Tom Stiles of Laird, Inc. in 1969.

Regional Housing Starts: As previously stated, national trends include, but can obscure, great variances in regional growth rates. Since Lowe's stores are predominantly in the South, these figures are pertinent in assessing our continuing opportunities. As Chart 11 illustrates, the North East accounts for the fewest number of housing starts and has the lowest long-range growth rate, although activity has spurted in 1972. The North Central share of total has declined from about 25% to about 20%. The West, starting from the lowest base in 1966, passed the North East in 1968, and the North Central in 1970, and continued growth is forecast. The South is the largest region, with the second highest long-term growth rate, and should be the home of 1,000,000 starts in 1972.

Housing Prices and Costs: The rising prices shown in Chart 9 are naturally pushing up housing selling prices as shown in Chart 12. Many builders are cutting back on the square footage of their homes in an effort to keep their homes in popular price ranges. The pie chart shows that while material cost is the largest slice at 38%, it is exceeded by the 42% combination of land and labor. This accentuates apartment construction in an effort to control land costs. With material costs so important and prices so volatile, Lowe's Homestead material price guarantee enables builders to eliminate a headache variable.



RETAILING & COMPETITION

Retailing: One of the most 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 13 presents total retail store sales in the United States from 1965 through 1971 with latest rate changes through June, 1972. This is a giant industry whose 1971 totals were equivalent to 39% of G.N.P., and 61% 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 14 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 16% increase in 1971 and the 17% increase in 1972 in the Lumber and Building Material Group surpasses most growth rates shown.

Pertinent Groups: A more detailed breakdown of two of the retail groups is shown in Table 15, listing 1970 and 1971 sales volume, 1971 and 1972 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 \$23,541,000,000 in 1971, and the 1967 census indicated about 81,000 stores shared this volume.

Lowe's share of this volume continues to grow and develop.

	1965	1968	1970	1971	1971 % Change	C.G.R.*	1972 % Change**
Food Group	\$ 64,016	\$ 72,681	\$ 86,114	\$ 89,149	+ 3.5%	5.7%	+ 5%
Eating & Drinking Places	20,201	25,285	29,888	31,140	+ 4.9%	7.5%	+ 9%
General Merchandise	42,290	54,493	51,220	68,117	+ 11.1%	8.3%	+ 10%
Apparel Group	15,785	19,265	19,810	20,740	+ 4.7%	4.7%	+ 4%
Furniture & Appliance Group	13,352	16,540	17,778	18,922	+ 4.2%	5.6%	+ 15%
Automotive Group	56,884	65,261	64,966	78,916	+ 21.5%	5.6%	+ 13%
Gasoline Stations	20,611	24,825	27,984	39,162	+ 4.2%	6.0%	+ 7%
Drug & Proprietary Store	9,186	11,458	13,352	13,709	+ 2.7%	6.9%	+ 5%
Liquor Stores	5,674	6,989	7,980	8,797	+ 10.1%	7.6%	+ 7%
Lumber, Building Material, Hardware & Farm Equipment Group	17,101	19,129	20,494	23,003	+ 12.2%	5.1%	+ 17%
Durable Goods	94,186	110,245	114,288	131,725	+ 15.3%	5.8%	+ 14%
Non-durable Goods	189,942	229,079	261,230	276,876	+ 6.0%	6.5%	+ 7%
United States - Total	\$284,128	\$339,324	\$375,527	\$408,609	+ 8.8%	6.2%	+ 9%

*COMPOUND GROWTH RATES 1968-1971
**PERCENT INCREASE 6 MONTHS 1972 VERSUS 6 MONTHS 1971
NOTE: U. S. AND GROUP TOTALS INCLUDE KINDS OF BUSINESS NOT SHOWN SEPARATELY.

SOURCE: RETAIL TRADE, U. S. DEPARTMENT OF COMMERCE / BUREAU OF THE CENSUS

	North East Region						West Region					
	1968	1970	1971	1971 % Change	C.G.R.*	1972 % Change**	1968	1970	1971	1971 % Change	C.G.R.*	1972 % Change**
All Stores	\$ 84,105	\$ 93,589	\$ 99,299	+ 6%	5.7%	+ 5%	\$ 61,082	\$ 66,895	\$ 73,344	+ 10%	6.3%	+ 13%
Food Group	19,756	23,271	23,535	+ 1%	6.0%	+ 4%	13,311	15,149	15,738	+ 4%	5.7%	+ 7%
GAF Group	24,553	26,423	28,030	+ 6%	4.5%	+ 6%	15,171	16,590	18,292	+ 10%	6.4%	+ 15%
LBHFE Group	3,230	3,347	3,733	+ 12%	4.9%	+ 11%	3,050	3,313	4,053	+ 22%	9.9%	N/A

	North Central Region						South Region					
	1968	1970	1971	1971 % Change	C.G.R.*	1972 % Change**	1968	1970	1971	1971 % Change	C.G.R.*	1972 % Change**
All Stores	\$ 99,295	\$ 107,842	\$ 117,325	+ 3%	5.7%	+ 8%	\$ 94,841	\$ 107,191	\$ 118,535	+ 11%	7.8%	+ 11%
Food Group	19,719	23,216	23,891	+ 2%	6.3%	+ 4%	20,096	24,478	26,195	+ 7%	9.2%	+ 6%
GAF Group	26,185	28,438	30,449	+ 7%	5.2%	+ 9%	24,389	27,407	30,008	+ 11%	7.8%	+ 11%
LBHFE Group	7,708	7,875	8,303	+ 5%	2.5%	+ 19%	5,141	5,359	6,914	+ 16%	10.4%	+ 17%

*COMPOUND GROWTH RATES 1968-1971
**PERCENT INCREASE 6 MONTHS 1972 VERSUS 6 MONTHS 1971
GAF GROUP COMBINES GENERAL MERCHANDISE, APPAREL, AND FURNITURE GROUPS.
LBHFE GROUP IS LUMBER, BUILDING MATERIAL, HARDWARE, AND FARM EQUIPMENT STORES.

SOURCE: ESTIMATES FROM RETAIL TRADE, BY U. S. DEPARTMENT OF COMMERCE / BUREAU OF THE CENSUS, WESTERN LBHFE ESTIMATES BY LOWE'S.

	1970	1971	1971 % Change	1972 % Change*	1967 Census Number of Stores
1. Lumber, Building Material, Hardware, Farm Equipment Group	\$20,494	\$23,003	+ 12.2%	+ 17%	69,015
A. Lumber Yards, Building Material Dealers, Paint, Plumbing, and Electrical Stores	11,995	13,717	+ 14.4%	+ 17%	36,334
B. Hardware Stores	3,351	3,641	+ 8.7%	+ 12%	19,339
C. Farm Equipment and Other...	5,148	5,645	+ 9.6%	+ 41%	13,342
2. Furniture and Appliance Group	\$17,778	\$18,522	+ 4.2%	+ 15%	71,264
A. Furniture, Home Furnishings Stores	10,483	11,000	+ 4.9%	+ 16%	39,860
B. Household Appliance, TV, Radio Stores	6,073	6,183	+ 1.8%	+ 11%	25,384
C. Other	1,222	1,339	+ 9.5%	+ 29%	6,020
Totals: 1A, 1B, 2B	\$21,419	\$23,541	+ 9.9%		81,067

*PERCENT INCREASE 6 MONTHS 1972 VERSUS 6 MONTHS 1971

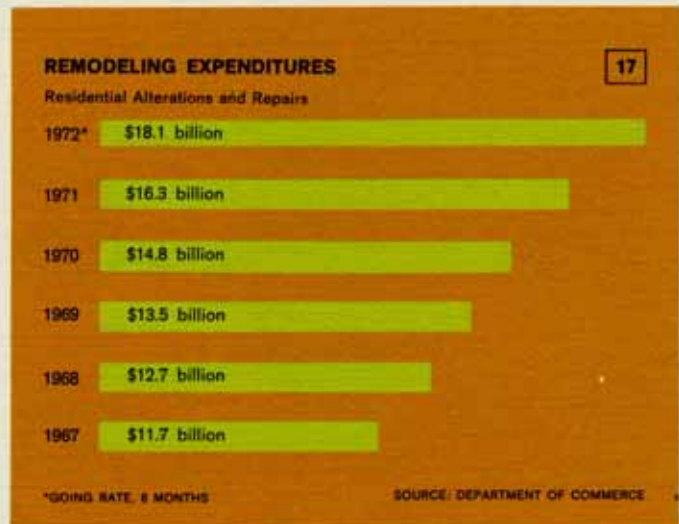
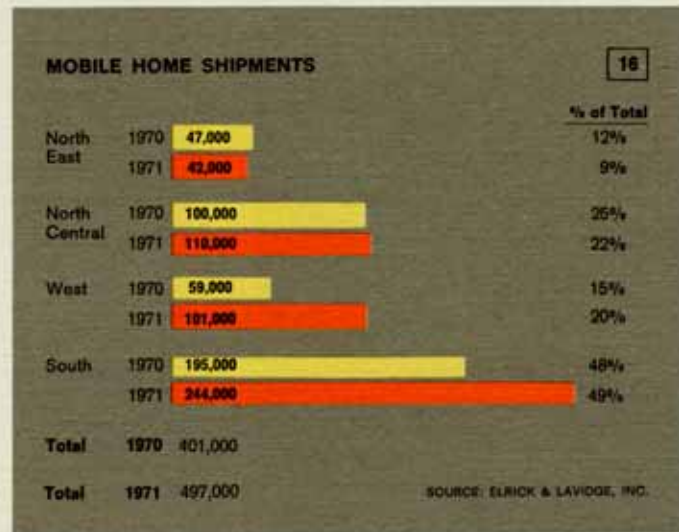
SOURCE: RETAIL TRADE, U. S. DEPARTMENT OF COMMERCE / BUREAU OF THE CENSUS

Mobile Homes: This once maligned industry has assumed a position of leadership in housing. While governmental agencies, federal and state, major corporations, and others have conducted countless seminars, conferences, subsidizations, etc. on factory housing and low cost housing with little obvious success, the manufacturers of "trailers" have been at work increasing their sales 400%, from 116,000 units in 1962 to an estimated 575,000 in 1972. At an average selling price of \$7,000, this is a \$4 billion business at retail. Manufacturers have concentrated on interior style, design, furnishing, and furniture, and offer housing's most complete and convenient to buy package. With their low selling prices, it is easy to understand how mobile homes are dominating the low-cost market, and accounted for over 90% of all housing units sold under \$15,000. The FHA decision to insure mortgage loans up to \$10,000 on mobile homes with up to 12 year repayment schedules, and recent Savings and Loan activity to finance their purchase, gives a continuing boost.

Remodeling Expenditures: Chart 17 portrays another market dimension and opportunity for Lowe's — the growing aftermarket for additions, alterations and repair to existing homes by the owners. Total expenditures projected for 1972 represent a 55% increase over the 1967 total.

Single family, owner occupied residences accounted for \$10.2 billion, about 63%; apartment expenditures were \$5.1 billion. Of the \$10.2 billion, \$7.1 billion represented payments to a contractor for labor and material, with the balance of \$3.1 billion being payments for materials purchased by the owners. Lowe's competes vigorously and successfully in this \$3.1 billion market. During 1972, we initiated action to compete in the labor-intensive \$7.1 billion portion as well. Lowe's "Improver" program will offer installation service for many of the products we sell.

Building Material Dealers: Table 18 is excerpted from *Buildings Supply News' Dealer Activity Audit* and reprinted by permission. The 1971 version is a 114 page study of lumber and building supply retail trends and is must reading for any serious analysis or understanding of the industry. Table 18 portrays just one of the important trends — the growth of chain retailing volume. From 1968 to 1970, there was across the board movement to higher volume levels. The over \$10 million group grew from 3.7% of total to 8.5% of total, a dramatic 130% increase. However, it is still predominantly a small store (less than \$500,000 average annual volume) industry. The average number of stores per chain grew from 5 to 6.3 in these years, and the average volume per chain store grew from \$405,000 to \$451,000. By Audit definitions, there are 24,300 building supply dealers — 4,600 in the North East, 8,600 in the North Central, 3,600 in the West, and 7,500 in the South.



BUILDING MATERIAL CHAINS 18

Annual Sales Volume	% of Chain Companies	
	1968	1970
Under \$500,000	26.9	17.5
\$500,000 to \$1 million	24.6	22.6
\$1 million to \$2.5 million	27.7	30.1
\$2.5 million to \$5 million	11.7	13.7
\$5 million to \$10 million	5.4	7.6
Over \$10 million	3.7	8.5
	100.0	100.0

SOURCE: BUILDING SUPPLY NEWS, 8 SOUTH WABASH, CHICAGO, ILLINOIS 60603

Lowe's Sources and Resources

These next twelve pages present a composite picture of Lowe's sources and resources, our corporate capabilities, our inclusive answer to the question, "Who is Lowe's?" You'll notice that each of the six sections focuses on a different group of people, each a vital part of Lowe's, each important as a group and for the individual talent, experience and dedication of every person in the group.

*We are our people—
We are our suppliers—
We are our customers—
We are our shareholders—
We are Lowe's.*

Field Organization: Lowe's Regional Manager organization continued to be a positive new dimension to management in its second year of operation. The Regional Managers have enabled us to maintain the control and communication between the General Office and our stores that has characterized Lowe's over the years, during a period of continued growth in the size of Lowe's Companies, Inc. The work of the three Regional Managers, Dwight E. Pardue, Albert E. Plemmons, and John Ross Burgess, Jr., and their capable staffs of supervisors has allowed Lowe's to maintain superior leadership of the store sales and service growth, to maintain excellent control over inventory and accounts receivable levels, and to provide the leadership necessary for the development of Lowe's personnel.

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 86 managers, 71 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 are Appliance and Home Entertainment, Carpet, and Paint Sales Managers. These trained specialists provide leadership to our sales force and service to our customers in their particular areas. Lowe's Salesettes continue to make a real contribution to sales and customer 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 four 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 8, have managed Lowe's affairs in this capacity since 1958, and have an average age of 46. Lowe's Marketing Managers work in close conjunction with our 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.

People and Organization



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 six years in highly publicized "credit crunches," due largely to anti-inflationary monetary policies of the Federal Reserve Board. Actions and developments in 1970 and 1971 suggest that the volatile pattern of housing due to financial problems will be less severe in the future.

Federal Government: Since 1970, HUD, FHA, VA, GNMA, and many other governmental agencies have provided positive structural changes in home financing.

Savings and Loans: Although these government fostered programs spurred housing recovery, 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.

A national recapitulation of trends in savings flow is shown in Table B. The 1971 figures show the remarkable resurgence of deposits into Savings and Loans. This extraordinarily high funds flow has continued through June, 1972, a highly favorable indicator for housing loan commitments. Table C presents loan commitment trends of the Savings and Loan associations in the Fourth Federal District, where 75% of Lowe's stores are located. The dramatic turnaround increases of 1971 are still growing.

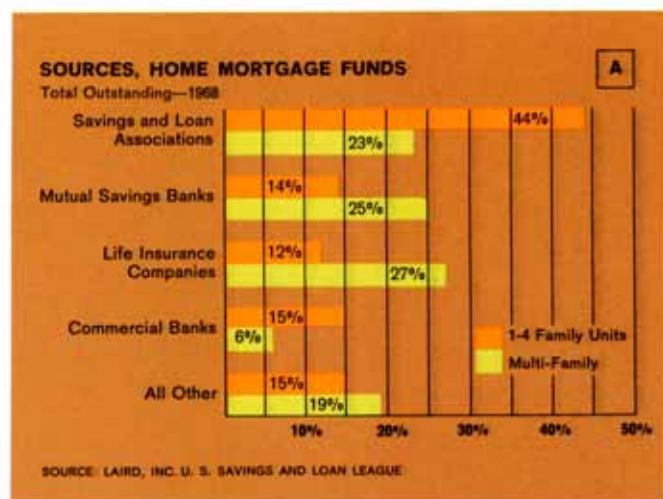
REITS: Another important new element in housing financing is represented by the active Real Estate Investment Trusts. They have brought equity capital and additional financing of \$9 to \$10 billion into a needed area, providing a significant augmentation of funds.

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 very predictable source of funds — America's consumer credit industry. Graph D shows its consistent growth, with installment credit passing \$110 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 virtually the same as cash sales to Lowe's.

Lowe's "Pro" Customer Financing: We provide interim credit to our professional customers. About 62% 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 \$27,440,000. We define Accounts Receivable Turnover as total Charge Sales divided by average Accounts Receivable outstanding. This turnover rate increased from 5.8 times in fiscal 1971 to 6.0 times this year, as sales increased.

Lowe's Capital Financing: The primary source of funds for expansion of our stores continues to be from operations. As shown on page 14, earnings and depreciation have provided 83% of the total funds available the last 5 years with long term debt being used for 15.1%. These sources will continue to be important, and proceeds from exercise of employee stock options should provide an additional \$3,365,000 in capital during the next three years, an 8.6% increase over our present net worth.

Our long term debt was increased by \$2.718,000 in 1972. This should be viewed in the perspective as shown by the Equity-Debt ratios on pages 48 through 50.



SAVINGS FLOW TRENDS B

Selected Savings Institutions
BILLIONS OF DOLLARS

	1966	1967	1968	1969	1970	1971	5 Year C.G.R.*	'71-'72**
Savings & Loans	\$ 3.6	\$10.7	\$ 7.4	\$ 4.2	\$11.2	\$28.3	+50%	+ 7%
Mutual Savings Banks	2.6	5.1	4.2	2.5	4.6	9.7	+30%	- 9%
Life Insurance Companies	8.1	10.4	11.3	8.8	9.0	13.9	+11%	+26%
Commercial Banks	12.1	23.7	20.6	(9.3)	34.8	40.0	+27%	-14%
Total	\$20.4	\$49.9	\$43.5	\$ 6.2	\$59.6	\$91.9	+26%	- 1%

**THROUGH JUNE, BOTH YEARS
*COMPOUND GROWTH RATES, NEAREST %

SOURCE: NARB; ECONOMIC NEWS NOTES

Suppliers of Money and Credit



SAVINGS & LOANS LOAN COMMITMENT TRENDS

Fourth Federal Home Loan Bank District
MILLIONS OF DOLLARS*

Month	LOWE'S FISCAL 1969		Change	LOWE'S FISCAL 1970		Change	LOWE'S FISCAL 1971		LOWE'S FISCAL 1972	
	Com.†	Com.†		Com.†	Change		Com.†	Change	Com.†	Change
Aug.	\$ 336	\$ 331	- 2%	\$ 391	+ 18%	\$ 953	+144%			
Sept.	303	307	+ 1%	400	+ 30%	807	+127%			
Oct.	322	273	- 15%	420	+ 54%	868	+106%			
Nov.	308	260	- 16%	428	+ 65%	835	+ 95%			
Dec.	307	231	- 25%	421	+ 82%	794	+ 89%			
Jan.	342	235	- 31%	455	+ 94%	837	+ 84%			
Feb.	378	248	- 35%	530	+113%	942	+ 78%			
Mar.	386	266	- 31%	705	+165%	1,099	+ 56%			
Apr.	407	309	- 24%	834	+170%	1,173	+ 41%			
May	434	347	- 20%	932	+169%	1,289	+ 38%			
June	391	379	- 3%	1,025	+170%	1,303	+ 27%			
July	361	392	+ 9%	1,022	+161%	1,304	+ 28%			

*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 82 of Lowe's 88 stores are located. †Federally-insured savings and loans activity approximates 97% of all savings and loans.

C

CONSUMER CREDIT TRENDS

D

BILLIONS OF DOLLARS



SOURCE: ECONOMIC INDICATORS

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. Major product source points are shown in the chart.

1972 Perspective: With increased demands from the building boom, many of our basic products were in short supply with extended delivery periods, but our long time practice of treating suppliers as business partners proved invaluable. It was extremely gratifying to have our suppliers cooperate with us in solving problems to the extent that Lowe's often had goods on hand when our competitors were out. Our buyers will continue to foster these personal relationships with our manufacturers and distributors through personal visits to see products and facilities. We anticipate maintaining the high level of mutual confidence and cooperation that now exists between ourselves and our suppliers.

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."

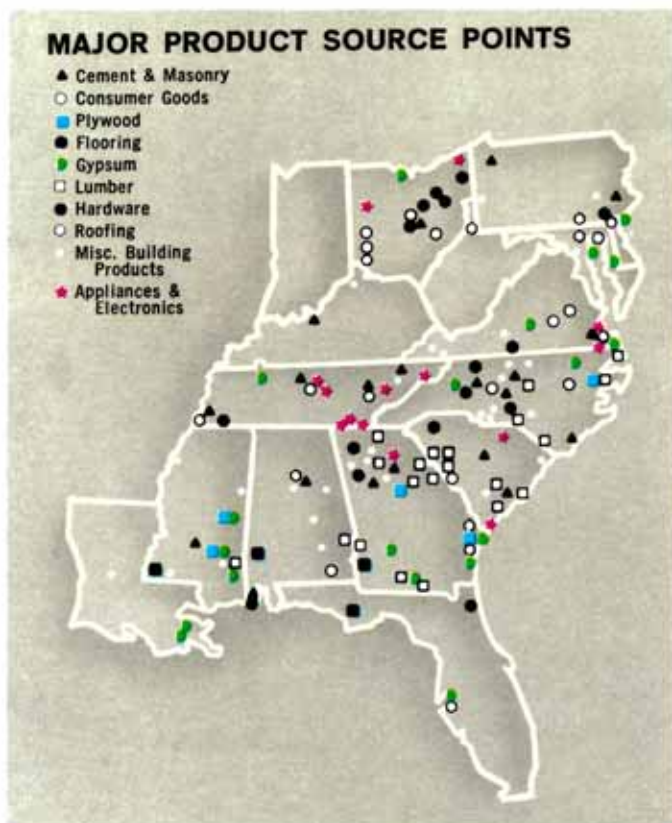
Lowe's Supplier Network: These factors incline Lowe's towards major suppliers, with national organizations. Our growing sales volume and their desire for a "piece of the action" has facilitated these connections in recent years, and the roster of our manufacturing sources reads like an excerpt from Fortune's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

Abitibi, Alcoa, American Machine & Foundry, Armstrong Cork, Bethlehem Steel, Black & Decker, Boise-Cascade, Borg-Warner, Celotex, Certainteed, Fedders, Fisher, GAF, 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, the Enterprise Paint Company, 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 suppliers who provide customer order specialty merchandise.

Suppliers of the Year: 1972 winners were:
 Best All Round Supplier: National Gypsum
 Best Field Representation: Modern Maid
 Best Marketing Programs: Armstrong Cork
 Most Promising Newcomer: Enterprise Paint

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 Merchandise

A photograph of a factory assembly line. In the foreground, a man in a light blue t-shirt and dark pants is leaning over a conveyor belt, adjusting a range hood. The range hoods are mounted on a metal frame and are moving along the line. In the background, another worker in a white shirt is visible, also working on the line. The factory has a high ceiling with exposed pipes and lights. The overall scene is busy and industrial.

Modern Maid ranges move down the assembly line in their Chattanooga, Tenn. plant.

Telecommunications: 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. New for 1972 and 1973 is a teleswitcher computer which controls a teleprinter console in each store, via the Bell System's DDD network. This telecommunications system provides virtually instantaneous communication with the General Office and all Lowe's stores, and is the heart of Lowe's intracorporate communication system.

Through a continuous sequential poll, the computer automatically receives data from, and transmits data to, each store's remote console without operator intervention at either the transmitting or receiving location. Store personnel may enter messages into the console's storage bank at any time and reports can be left in the console at the close of the business day for unattended transmission at night. This will allow more routine reports and reference material to be sent at night, to be on the addressee's desk at the beginning of each business day, and to free the daytime hours for more urgent messages. Among the thousands of daily Lowe's messages that zip between our stores are market changes, price information, sales reports, and merchandise requests. The system'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 for marketing and operations.

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. A significant advance occurred during the mid-60's with the installation of IBM 402 and 526 accounting/billing machines to calculate and print each sales ticket and provide other unique services. A prime example of this is our Homestead invoice calculation and printing discussed on page 7.

The addition of video screen terminals in various

control areas of the Central Office this year has provided direct access for data entry into and recall from the central computer for all departments, and is helping to solve scheduling problems and time consuming hand input-output operations. The installation of an IBM 370 computer in February will allow us to utilize our IBM 360 computer for data preparation and coordination of input systems. The 370 will be our main-frame computer, with the 360 handling secondary computing functions.

We plan to use our telecommunications computer as an input device for our central computing facility to allow direct data entry from the point of sale. Through the increase in capacity of our computing facility and the steamlining of input channels, we will improve the currency and accuracy of information used as a basis for management decision-making.

We are building a management information system with an integral data transmission network linking the central computing facility with specialized in-store computers for data transmission. Additional data entry terminals and network expansion will be implemented as we continue the sophistication and refinement of this unique control system.

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 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 economical routing.

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 continued to open stores along the Atlantic seaboard. Good advice and good equipment from specialists in the field aid us in keeping our transportation network fast and efficient.

Outlook: Our customers' demands for services will continue to increase, both in quantity and sophistication.

Suppliers of Services



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 86 basic marketing areas served by the present Lowe's stores, these professional buyers number approximately 100,000. About one-third of this number are Lowe's customers for at least a portion of their professional buying needs.

Retail Customers: Our retail customers are primarily home owners or "householders," buying for personal or family use. Since our merchandise line is composed basically of products for home building 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 86 store marketing areas serve just under 5,000,000 households, an average of 58,000 for each store market area. This compares with a 53,000 average one year ago.

Lowe's Customer Sales: Table A 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, 62% of our 1972 sales volume came from this source. Retail volume has had a higher growth rate during these years, increasing from 33% to 38% of the total. A comparison of these percentages with those of Table B shows that Lowe's has a broader retail customer base than the typical dealer in our volume category, 38% versus 23.9%. (Lowe's average annual sales volume for established stores was \$3,051,000 in 1972.) 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 decade of the 1970's.

Customer Sales Profile: Table B on page 33 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 customer percentages change as sales volume per store increases. Their figures indicate that the typical \$500,000 dealer does 42.8% of total sales to retail customers, or \$214,000. The \$3,000,000 dealer does 23.9%, or \$717,000. The average Lowe's store open one year or longer achieved a retail volume of \$1,160,000, more than 50% greater than those dealers surveyed in Table B.

CUSTOMER SALES PROFILE, TRENDS AT LOWE'S

A

	1967		1968		1969		1970		1971		1972		C.G.R.**
	Sales	% of Total	Sales	% of Total	Sales	% of Total	Sales	% of Total	Sales	% of Total	Sales	% of Total	
PROFESSIONAL	\$50,445	67%	\$63,930	66%	\$79,760	67%	\$75,100	58%	\$104,050	61%	\$146,290	62%	
Change*			+27%		+25%		- 6%		+39%		+41%		+23.7%
RETAIL CONSUMER	\$25,255	33%	\$33,100	34%	\$39,290	33%	\$53,400	42%	\$65,670	39%	\$88,270	38%	
Change*			+31%		+19%		+36%		+23%		+34%		+28.5%
TOTAL	\$75,700	100%	\$97,030	100%	\$119,050	100%	\$128,500	100%	\$169,720	100%	\$234,560	100%	
Change:			+28%		+23%		+ 8%		+32%		+38%		+25.4%

ROUNDED FIGURES, THOUSANDS OF DOLLARS
PERCENTAGES ROUNDED TO NEAREST WHOLE %
*CHANGE FROM PREVIOUS YEAR
**C.G.R. - FIVE YEAR COMPOUND GROWTH RATES

Lowe's Customers



CUSTOMER SALES PROFILE, BUILDING MATERIAL DEALERS

B

		United States*			South Atlantic Region, 1968** Dealer Sales Volume				
		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
		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*FROM BUILDING SUPPLY NEWS

**FROM BUILDING MATERIAL MERCHANDISER



Stock Offerings: 1972 was our eleventh year as a public company, yet Lowe's has never sold any stock to the public! Our Profit-Sharing Trust has been the selling shareholder in the two public offerings, both managed by G. H. Walker & Co., Inc., the first in October 1961, and again in January, 1971.

The Gold Oscar: Lowe's shareholder communications have received an ultimate accolade with the selection by *Financial World* of our 1971 Annual Report to win their coveted Oscar-of-Industry as the best annual report in the nation. Robert L. Strickland, creator of the report, is pictured here accepting the award from Dr. William R. Dill, Chairman of the Board of Judges. Shown seated from left are Mr. Arthur E. Voss, Vice President of Financial World, and the Hon. William J. Casey, Chairman of the Securities and Exchange Commission. Strickland stated, "This is an outstanding recognition for Lowe's and all the people involved. It's extremely gratifying for Lowe's to receive this truly significant honor, won in competition with so many other outstanding companies." Lowe's will continue to strive for the excellence in its corporate reporting efforts that this award symbolizes.

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, their computerized quotation network.

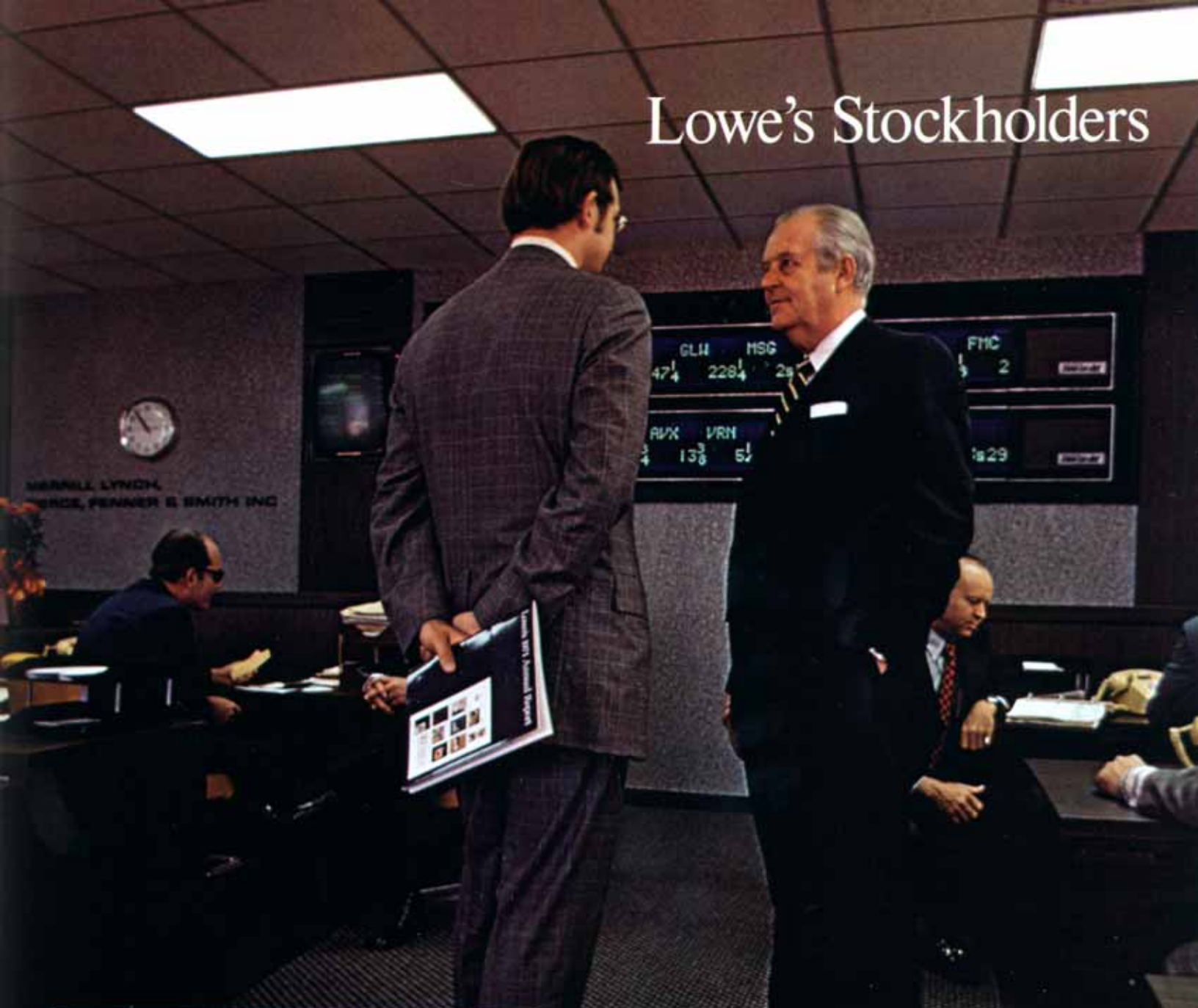
Stockholder Composition: The number of stockholders increased about 23% this year from 2,463 to 3,038. An additional 1,000 to 1,100 are in nominee accounts of various brokerage firms. Our stockholders geography is shown in the table. 63% live in the 14 states where we operate stores, and the group includes many suppliers, employees, and customers — those who know us best. However, 44 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 2,593,000 shares. Thus each Lowe's employee has a direct interest in our continued success.

Stockholder Survey: We appreciate your participation in our yearly surveys. 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 us confidence in these interesting, enlightening opinions.

STOCKHOLDER CENSUS

	Holders	Shares
ALABAMA	20	7,840
ALASKA	1	66
ARIZONA	5	307
ARKANSAS	1	186
CALIFORNIA	52	14,547
COLORADO	6	2,000
CONNECTICUT	56	39,405
DELAWARE	21	4,098
DISTRICT OF COLUMBIA	27	27,915
FLORIDA	51	27,290
GEORGIA	52	15,151
HAWAII	1	66
ILLINOIS	62	167,659
INDIANA	7	169
IOWA	5	5,504
KANSAS	3	4,021
KENTUCKY	11	2,285
LOUISIANA	5	1,386
MAINE	1	66
MARYLAND	77	260,182
MASSACHUSETTS	87	563,359
MICHIGAN	27	26,537
MINNESOTA	26	113,527
MISSISSIPPI	12	2,603
MISSOURI	44	37,509
NEBRASKA	6	3,273
NEW HAMPSHIRE	2	160
NEW JERSEY	59	22,084
NEW MEXICO	2	156
NEW YORK	260	1,719,535
NORTH CAROLINA	1,352	2,145,231
OHIO	40	19,278
OKLAHOMA	13	15,180
OREGON	8	1,609
PENNSYLVANIA	64	83,724
RHODE ISLAND	81	82,337
SOUTH CAROLINA	116	39,453
SOUTH DAKOTA	1	200
TENNESSEE	78	48,668
TEXAS	22	37,326
VERMONT	4	14,815
VIRGINIA	178	181,091
WASHINGTON	11	13,756
WEST VIRGINIA	18	3,422
WISCONSIN	48	101,336
CANADA	5	2,183
PUERTO RICO	1	800
MEXICO	1	400
NETHERLANDS	1	13
SWITZERLAND	1	80
ENGLAND	5	2,280
SUBTOTAL	3,037	5,862,028
EMPLOYEES PROFIT SHARING TRUST	1	2,592,677
TOTALS	3,038	8,454,705

Lowe's Stockholders



STOCKHOLDER SURVEY

Which section of Lowe's 1971 Annual Report did you like best?

SIXTEEN YEAR REVIEW	28%
GRAPHS AND CHARTS	22%
MARKETING DIMENSIONS	12%
NARRATIVE SECTIONS	10%
FINANCIAL STATEMENTS	9%
PRESIDENT'S REPORT	6%
CHAIRMAN'S LETTER	5%
OTHER	8%
	100%

Shown here from right are Mr. Ned Ball, President, Merrill Lynch, Pierce, Fenner & Smith, Inc. and Mr. Hilliard Staton, manager of the firm's Winston-Salem office.

Lowe's - How We Grow

In the next ten pages, we review the dynamics, the action, the motivation and the performance linked with Lowe's. This is a functional review rather than a structural one, focusing on "What we do." In sports analogy, The Market Dimensions portion of this annual report may be thought of as representing the stadium, the stakes, and the competing team. The Sources and Resources section enabled you to meet the players. Now here's the game plan—Lowe's—How We Grow.

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 that their contribution of loyalty, sincerity, dedication and hard work is acknowledged to them in many ways.

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 that they will not be overlooked when Lowe's growth creates new job opportunities. During 1972, 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 38 and 39.

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 an annual precedent which has lasted ten 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 forecasts 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.

Motivation—A Dynamic of Growth



Background: Lowe's uniquely successful Profit-Sharing Plan and Trust was announced in 1957. Its acquisition of Lowe's stock came about as a result of the wishes of Lowe's founder, Carl Buchan, whose planning called for the Trust to buy the balance of Lowe's stock from his estate, and this was done in 1961 on behalf of all members of the Trust. The subsequent stock offering made Lowe's a public company.

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. In addition, the voluntary withdrawal plan, adopted in 1971, enables the profit sharing plan to meet the individual needs and wishes of Lowe's employees. Robert Striggles, salesman pictured at right says, "Lowe's profit sharing makes me feel like I'm working for myself as well as for Lowe's." And Robert, you're right!

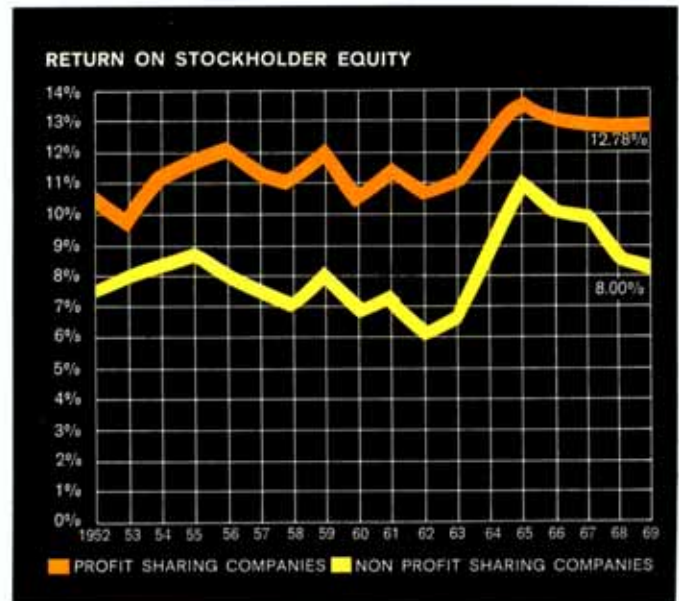
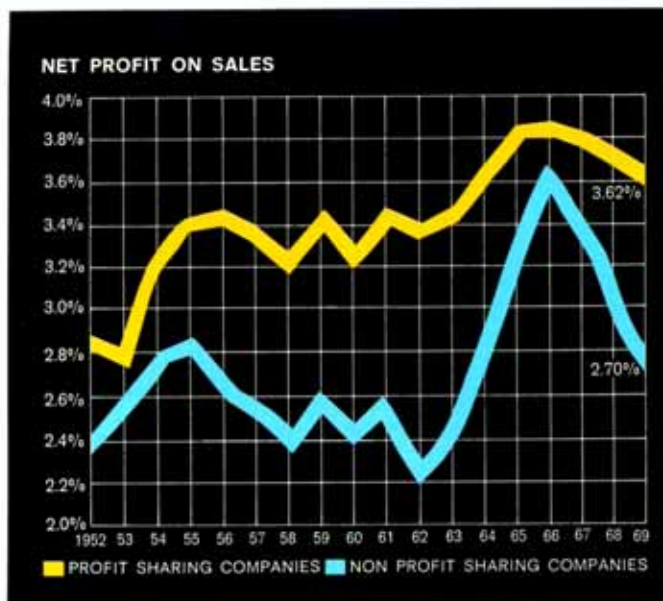
Shareholder Interests: A new study, *Does Profit Sharing Pay?*, from the Profit Sharing Research Foundation ably and convincingly details the reasons shareholders should prefer profit sharing companies. We quote: "What we need today are organizational incentives — programs which can simultaneously motivate 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."

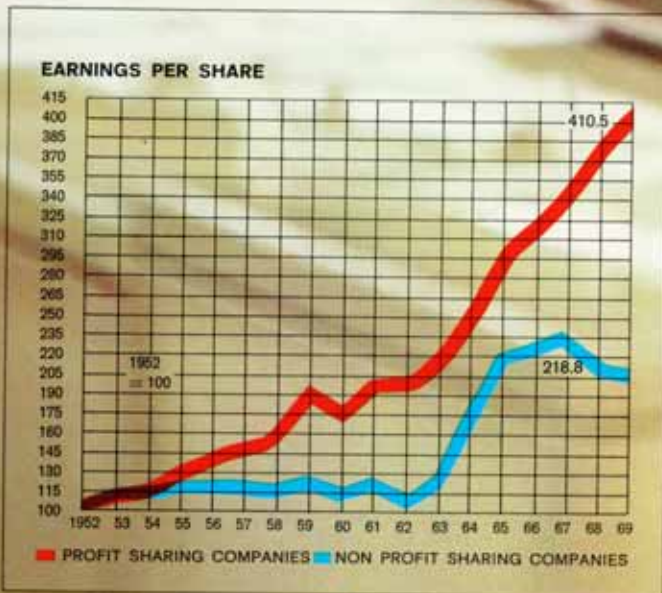
The study compares financial performance of retailers with and without profit sharing. There were 8 profit sharing companies, including Sears, Penney, and Macy; and 6 non-profit sharers, including Allied, May, and Marshall Field. The study conclusion: "On all measures of significance to stockholders,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

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

Lowe's performance corroborates this. Lowe's sales and profit per employee are significantly greater than that of any of the companies covered in the study. (See the Performance Measurements and Comparisons chart on page 45 for amplified treatment of Lowe's sales and profit per employee.) Lowe's Profit-Sharing Trust has grown along with the company so that it now "ranks number 11 in size among the largest profit-sharing trusts in the nation," according to Bert Metzger, Director, The Profit-Sharing Research Foundation. Metzger goes on to say: "In relation to your number of employees, Lowe's Profit-Sharing fund is the largest in the nation." And we have no record of any profit sharing plan whose assets have grown as fast as those of Lowe's. The compound growth rate of 36.5% since 1961 is unparalleled. Lowe's employees do have a significant stake in the progress of their company. The record they have achieved proves they recognize this. Employees and stockholders alike have benefited as a result.



Profit Sharing—A Dynamic of Motivation



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. 14,000 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.

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. Our data processing system provides valuable information feedback also.

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 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.

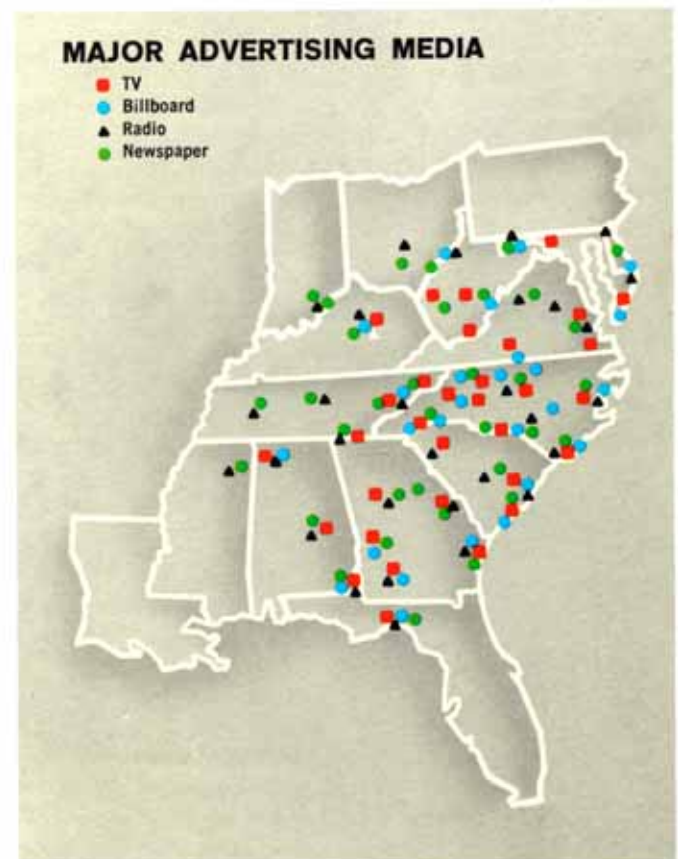
Advertising: Prerequisite to being one of the nation's fastest growing retailers is having an innovative, aggressive advertising strategy. The past five years have seen a boom in Lowe's advertising capabilities. Our advertising people, a relatively small but solidly professional group, have led Lowe's 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 1972 was no exception. Our customer count for the year was 3,820,000, 20% better than 1971.

The newspaper medium continued to carry the bulk of Lowe's advertising in 1972, 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.

Full color billboards have proven to be an effective medium for many Lowe's products. We have re-organized our advertising staff to enable us to produce full color pre-printed mailers and newspaper inserts at least once a month. This is a powerful medium for Lowe's, one that truly sells merchandise. 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 stores and Lowe's people.



Motivation—A Dynamic of Marketing



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.

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 stores are our profit centers both in concept and 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 heating and air-conditioning systems.

- (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.

Trends and Programs: The increase in sales per store owes much to the receptive business climate we are presently enjoying. But a receptive market without strong marketing action is like a fine radio receiver with no transmitters around. And Lowe's programs of product marketing and customer service have been extremely vigorous this year.

Trend Analysis: An understanding study of these product trends and growth rates can best be made with a simultaneous review of the trends in Lowe's changing customer mix, as detailed in Lowe's Customer Sales Profile on page 32.

Categories 1 and 2 here are the same as A on page 5, and 3 through 7 here equals B on page 5. Again this year, six of the seven categories posted sales gains, led by Lumber with a 54% increase. Home Entertainment, in modest decline last year, achieved a 23% gain in 1972. However, our mobile homes sales declined by 20% in a good market year. During 1970 and 1971, we selected 12 stores to merchandise these homes. In many locations, we simply placed the homes on our parking lots in a drive for immediate sales volume. When physical facilities are non-competitive, in convenience or appearance or parking area, marketing costs generally go up and margins are generally forced down. We closed 3 marginal mobile home sales operations in 1971 and 3 during 1972. The remaining six stores achieved sales increases and are doing well. Further, we have assigned an experienced Sales and Merchandising Manager exclusively to the expansion of our mobile homes sales, and we predict a turnaround here in 1973 for two reasons. First, continued strong consumer demand for economical mobile home living, especially by young marrieds establishing their first household. Secondly, an expansion of the number of our mobile home operations, our marketing efforts and market penetration, and our product line.

Sales – Fulfilling the Demand



PRODUCT SALES ANALYSIS AND TRENDS

CATEGORY	Fiscal 1967		Fiscal 1968		Fiscal 1969		Fiscal 1970		Fiscal 1971		Fiscal 1972			
	Sales*	% of Total	Sales*	% of Total	Sales*	% of Total	Sales*	% of Total	Sales*	% of Total	Sales*	Change	% of Total	C.G.R.†
1	\$ 14,310	18.9	\$ 21,150	21.8	\$ 27,650	23.2	\$ 25,760	20.0	\$ 37,150	21.9	\$ 57,250	+54%	24.4	32.0%
2	39,890	52.7	49,000	50.5	60,040	50.4	62,585	48.7	81,730	48.2	112,860	+38%	48.1	23.0%
3	7,110	9.4	7,960	8.2	9,010	7.6	10,680	8.5	14,550	8.6	19,910	+37%	8.5	22.9%
4	5,660	7.5	7,760	8.0	10,100	8.5	12,050	9.4	16,970	10.0	20,380	+20%	8.7	29.1%
5	5,150	6.8	6,500	6.7	7,130	6.0	8,760	6.8	10,010	5.9	13,620	+36%	5.8	21.4%
6	3,560	4.7	4,660	4.8	5,320	4.3	7,170	5.6	7,160	4.2	8,830	+23%	3.8	20.0%
7							1,315	1.0	2,150	1.2	1,710	-20%	.7	14.1%
Total	\$ 75,700	100	\$ 97,030	100	\$119,050	100	\$128,500	100	\$169,720	100	\$234,560	+38%	100	25.4%

*ROUNDED FIGURES, THOUSANDS OF DOLLARS

†COMPOUND GROWTH RATE, 1967 THROUGH 1971—MOBILE HOMES; 1971 THROUGH 1972

Growth: Lowe's management assignment is 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 1962 through 1972, Lowe's sales volume has increased at a 21.8% annual compound rate. During this same period, sales volume in the 18 original 1962 markets has grown at a 7% annual rate. The balance, of course, came from new stores, which have been opened at a compound rate of 17%. A comparison of this new store growth rate and the total sales increase rate 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 7% growth rate in long-established stores indicates additional sales growth potential in the 86 markets in which we are operating.

Earnings Growth: From 1962 through 1972, net earnings have grown from \$1,020,000 to \$9,121,000, an annual growth rate of 24.5%. The compound growth rate in earnings per share, during this same period, has been 23.6%.

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 48 through 50, Lowe's has consistently achieved management's objective of 20% on equity. This best measures a company's top management, whose policies on capital composition, debt, equity, and leverage, 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 recent trends upward, and 13.20% return achieved this year.

A Comparison: Shown in the table are various performance measurements of three groups: the nation's top five retailers (non-food); the two largest companies with major chain building material retailing activity; and Lowe's latest five years.

Many conclusions may be drawn from this study. Sears' return on sales, and Kresge's growth in sales and earnings per share prove that giant companies can be nimble performers. And growth is not diluting Lowe's performance. Our employees doubled during this period

and profit per person increased by 17%. 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 a 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. Four 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 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 23 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.

Lowe's present expansion plans call for opening new stores in both metropolitan and non-metropolitan areas. Opportunities in the metropolitan areas are readily apparent to the average person. Opportunities also exist in smaller towns, as is evident in figures from *Sales Management's 1972 Survey of Buying Power* which show that while better than 90% of national department store sales are made in the 300 standard metropolitan areas, along with approximately 75% of all retail sales, only 59% of lumber, building materials and hardware sales are made there.

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: Our expansion plans call for continued growth in new stores and relocation or improvement of existing facilities on a priority basis.

Growth — Fulfilling the Opportunity



PERFORMANCE MEASUREMENTS AND COMPARISONS

	Total Sales (000,000)	Net Income (000,000)	% Return on Sales	Ending Total Assets (000,000)	Sales Per Asset \$	% Return on Ending Assets	Ending Stockholders' Equity (000,000)	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	\$10,006	\$551	5.5	\$8,312	\$1.20	6.6	\$4,061	\$2.46	13.6	9.32	365,000*	\$27,414	\$1,510
Penney	4,812	136	0.9	1,924	2.50	7.1	990	4.86	9.2	8.89	162,000	29,704	840
Kresge	3,140	96	3.1	1,096	2.87	8.7	548	5.73	17.5	25.22	93,000*	33,763	1,032
Marcor	2,999	58	1.9	2,371	1.26	2.5	921	3.26	6.2	11.15	125,000*	23,992	464
Woolworth	2,801	71	2.5	1,580	1.77	4.5	875	3.20	8.1	3.18	225,000	12,449	316
Evans	718	19	2.6	517	1.39	3.7	218	3.29	8.7	—	13,000	55,231	1,462
Wickes	615	12	2.0	294	2.09	4.1	165	3.73	7.4	4.20	13,300	48,241	902
Lowe's:													
1972	234.6	9.0	3.84	89.5	2.62	10.10	39.3	5.97	22.9	23.6	2,630	89,185	3,430
1971	169.7	6.5	3.88	69.1	2.46	9.50	30.6	5.55	21.4		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	76,946	2,934
1969	119.1	4.6	3.87	41.4	2.86	11.06	20.5	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

SOURCE OF FIGURES FOR OTHER COMPANIES: 1972 FORTUNE DIRECTORY LISTING OF THE 50 LARGEST NON-FOOD RETAILERS. ©1972 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 44 THROUGH 50, FOR AMPLIFIED TREATMENT.

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

ALSO SEE CHART 11, PAGE 8

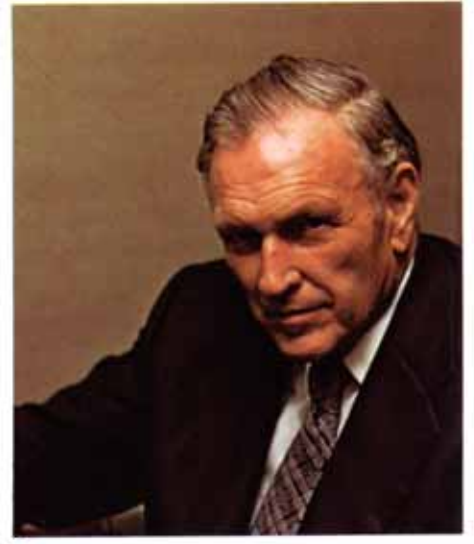
Board of Directors



1



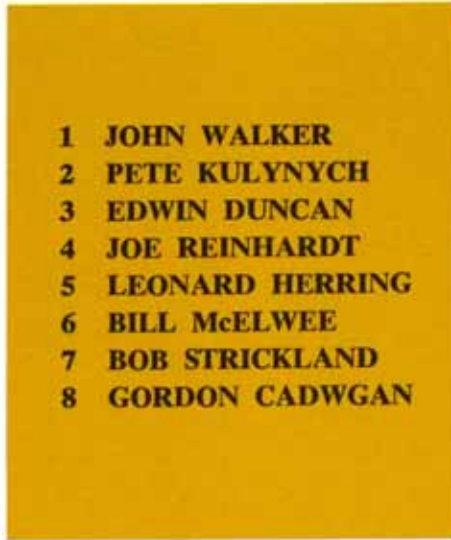
2



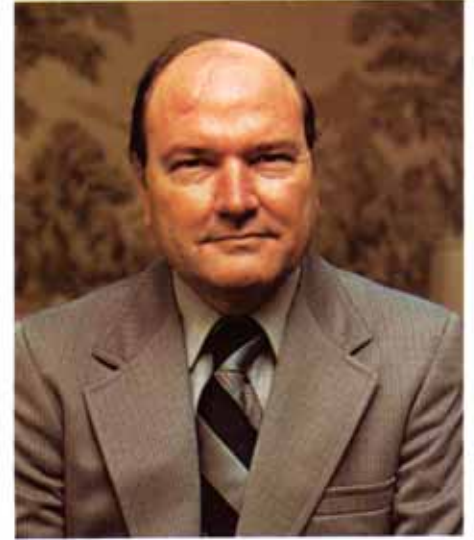
3



4



- 1 JOHN WALKER
- 2 PETE KULYNYCH
- 3 EDWIN DUNCAN
- 4 JOE REINHARDT
- 5 LEONARD HERRING
- 6 BILL McELWEE
- 7 BOB STRICKLAND
- 8 GORDON CADWGAN



5



6



7



8

Corporate Information

DIRECTORS

EDWIN DUNCAN

Chairman of the Board of Directors
11 Years with Lowe's
FORMER STATE SENATOR, NORTH CAROLINA
PRESIDENT, NORTHWESTERN FINANCIAL CORPORATION
TRUSTEE, UNIVERSITY OF NORTH CAROLINA
WHO'S WHO IN AMERICA

PETRO KULYNYCH

Vice Chairman of the Board of Directors
Office of the President, Executive Vice President
Chairman, Investment Committee, Lowe's Profit Sharing Trust
26 Years with Lowe's
TRUSTEE, SULLINS COLLEGE
BOARD OF VISITORS, APPALACHIAN STATE UNIVERSITY
DIRECTOR, NORTHWEST SECURITY LIFE
WHO'S WHO IN FINANCE AND INDUSTRY

LEONARD G. HERRING

Chairman, Executive Committee, Board of Directors
Office of the President, Senior Vice President
Trustee, Lowe's Profit Sharing Trust
17 Years with Lowe's
DIRECTOR, NORTHWESTERN FINANCIAL CORPORATION
WHO'S WHO IN FINANCE AND INDUSTRY

JOE V. REINHARDT

Board of Directors, Executive Committee
Office of the President, Senior Vice President
Secretary, Lowe's Profit Sharing Trust
16 Years with Lowe's
DIRECTOR, NATIONAL YOUTH PROGRAM
DIRECTOR, WILKES YMCA
DIRECTOR, BARIUM SPRINGS ORPHANAGE
DIRECTOR, WILKES AIRPORT COMMISSION

ROBERT L. STRICKLAND

Board of Directors, Executive Committee
Office of the President, Senior Vice President
Chairman, Operations Committee, Lowe's Profit Sharing Trust
15 Years with Lowe's
FORMER STATE REPRESENTATIVE, NORTH CAROLINA
MEMBER, NEWCOMEN SOCIETY
DIRECTOR, NATIONAL HOME IMPROVEMENT COUNCIL
WHO'S WHO IN FINANCE AND INDUSTRY

JOHN A. WALKER

Board of Directors, Executive Committee
Office of the President, Executive Vice President
Administrative Committee, Lowe's Profit Sharing Trust
14 Years with Lowe's
TRUSTEE, NORTHWESTERN FINANCIAL INVESTORS
MEMBER, PLYWOOD ADVISORY COUNCIL, CHICAGO BOARD OF TRADE
NOMINEE, LIEUTENANT GOVERNOR OF NORTH CAROLINA
WHO'S WHO IN AMERICAN POLITICS

WILLIAM H. McELWEE

Board of Directors
General Counsel, Senior Vice President
23 Years with Lowe's
PARTNER, McELWEE AND HALL
PAST PRESIDENT, NORTH CAROLINA BAR
MEMBER, N. C. BOARD OF LAW EXAMINERS
FELLOW, AMERICAN COLLEGE OF TRIAL LAWYERS

GORDON E. CADWGAN

Board of Directors
11 Years with Lowe's
VICE PRESIDENT, G. H. WALKER & CO., INC.
DIRECTOR, LEACH & GARNER CO.
DIRECTOR, ATLANTIC DEPARTMENT STORES
PRESIDENT, NEW ENGLAND HOME

GENERAL INFORMATION

J. Ross Burgess
Regional Manager

Dwight E. Pardue
Regional Manager

Albert E. Plemmons
Regional Manager

Rex L. Shumate
Assistant Treasurer

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
National Over-The-Counter Market quotations.

Dividend Disbursing Agent:
Wachovia Bank & Trust Company, N.A.
Box 27886, Raleigh, N.C. 27611

Transfer Agents:
Morgan Guaranty Trust Company of New York,
23 Wall Street, New York, N.Y. 10015

Wachovia Bank & Trust Company, N.A.
Box 27886, Raleigh, N.C. 27611

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

16 Year Review of Performance

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

Year Ended July 31		15 Year Compound Growth Rates 1957-1972	10 Year Compound Growth Rates 1962-1972	5 Year Compound Growth Rates 1967-1972	1972
Stores and People					
1	Number of Stores	19.4%	17.0%	14.4%	86
2	Number of Employees	18.2%	18.3%	20.9%	2,630
3	Customers Served (Thousands)	17.3%	18.4%	16.8%	3,820
4	Average Customer Purchase				\$ 61.40
Comparative Income Statement (Thousands)					
5	Total Sales	18.5%	21.8%	25.3%	\$234,556
6	Pre-Tax Earnings	23.0%	24.3%	28.6%	\$ 18,143
7	Taxes on Income	22.7%	24.2%	30.5%	\$ 9,022
8	Net Earnings	23.3%	24.5%	27.0%	\$ 9,121
9	Cash Dividends Paid	N/A	8.9%	7.5%	\$ 946
10	Earnings Retained and Reinvested	22.4%	29.5%	31.2%	\$ 8,174
Dollars Per Share (Nearest Cent) (1) (3)					
11	Sales	18.2%	17.3%	24.8%	\$ 27.81
12	Earnings (2)	22.9%	23.6%	26.0%	\$ 1.08
13	Cash Dividends	N/A	8.4%	6.9%	\$.11
14	Earnings Retained and Reinvested	21.8%	28.2%	30.0%	\$.97
15	Shareholders' Equity	22.9%	20.6%	22.5%	\$ 4.64
Performance Measurements*					
16	Asset Turnover (Sales per Asset Dollar)				\$ 3.40
17	Return on Sales (Earnings as % of Sales)				× 3.89%
18	Return on Assets				= 13.20%
19	Leverage Factor (Asset Dollars per Equity Dollar)				× 2.26
20	Return on Shareholders' Equity				= 29.81%
Comparative Balance Sheet (Thousands)					
21	Current Asset Totals	22.7%	19.6%	23.7%	\$ 70,110
22	Cash	20.6%	14.8%	10.1%	\$ 7,802
23	Accounts Receivable (Net of Reserve)	27.8%	21.9%	23.2%	\$ 27,440
24	Inventories (Lower of Cost or Market)	20.5%	19.4%	29.3%	\$ 34,475
25	Other Current Assets				\$ 393
26	Fixed Assets	26.8%	20.0%	27.5%	\$ 19,330
27	Other Assets				\$ 45
28	Total Assets	23.4%	21.2%	24.4%	\$ 89,485
29	Current Liabilities Totals	23.1%	21.5%	26.3%	\$ 40,217
30	Accounts Payable	24.2%	20.6%	26.9%	\$ 27,684
31	Income Tax Provisions	18.8%	19.5%	18.5%	\$ 5,086
32	Other Current Liabilities	23.2%	28.9%	31.6%	\$ 7,447
33	Long-Term Debt	26.6%	19.6%	23.2%	\$ 10,014
34	Total Liabilities	23.7%	21.1%	25.7%	\$ 50,231
35	Shareholders' Equity	23.1%	21.4%	23.0%	\$ 39,254
36	Ratio: Equity ÷ Long Term Debt				3.92
37	Year End Leverage Factor: Assets ÷ Equity				2.28
Shareholders and Shares					
38	Shareholders of Record, Year End				3,038
39	Shares Outstanding, Year End (Thousands) (1) (3) (4)				8,455
40	Stock Price Range During Year (1)				\$66.50-30.00

Explanatory Notes

- (1) As adjusted to reflect a 100% stock dividend in May, 1966, a 2 for 1 stock split in November, 1969, a 50% stock dividend in December, 1971, and a 33½% stock dividend as of July 31, 1972.
- (2) After deducting \$2,250 dividends per year on preferred stock outstanding.

- (3) For 1956 through 1961, per share figures are based on 8,000,000 shares, the restated shares outstanding at October 10, 1961, the original public offering date.
- (4) Variation in the outstanding shares is the result of employee stock option transactions. No additional shares have been sold, or issued for acquisitions.

	1971	1970	1969	1968	10 Year Compound Growth Rates	5 Year Compound Growth Rates	Base Year 1967	1966	1965
1	75	64	58	53	21.1%	19.6%	44	39	35
2	2,071	1,670	1,450	1,223	16.8%	15.7%	1,017	891	762
3	3,194	2,729	2,290	2,034	17.5%	20.0%	1,755	1,636	1,284
4	\$ 53.13	\$ 47.09	\$ 51.98	\$ 47.70			\$ 43.14	\$ 47.10	\$ 44.44
5	\$169,723	\$128,491	\$119,053	\$ 97,031	15.3%	18.3%	\$ 75,695	\$ 77,043	\$ 57,044
6	\$ 13,027	\$ 9,938	\$ 9,514	\$ 7,202	20.2%	20.1%	\$ 5,151	\$ 5,286	\$ 3,942
7	\$ 6,479	\$ 5,068	\$ 4,906	\$ 3,609	19.0%	18.2%	\$ 2,381	\$ 2,496	\$ 1,896
8	\$ 6,548	\$ 4,870	\$ 4,608	\$ 3,593	21.5%	22.1%	\$ 2,770	\$ 2,790	\$ 2,046
9	\$ 907	\$ 844	\$ 780	\$ 756	N/A	10.5%	\$ 661	\$ 616	\$ 519
10	\$ 5,641	\$ 4,026	\$ 3,828	\$ 2,837	18.3%	27.8%	\$ 2,109	\$ 2,174	\$ 1,527
11	\$ 20.16	\$ 15.27	\$ 14.15	\$ 11.65	15.0%	17.6%	\$ 9.20	\$ 9.44	\$ 7.10
12	\$.78	\$.58	\$.55	\$.43	21.1%	21.2%	\$.34	\$.34	\$.25
13	\$.11	\$.10	\$.09	\$.09	N/A	9.9%	\$.08	\$.08	\$.06
14	\$.67	\$.48	\$.46	\$.34	17.9%	26.7%	\$.26	\$.26	\$.19
15	\$ 3.64	\$ 2.96	\$ 2.48	\$ 2.03	23.1%	18.9%	\$ 1.69	\$ 1.43	\$ 1.17
16	\$ 3.43	\$ 3.09	\$ 3.37	\$ 3.24			\$ 2.65	\$ 3.34	\$ 3.20
17	× 3.86%	× 3.79%	× 3.87%	× 3.70%			× 3.66%	× 3.62%	× 3.59%
18	= 13.25%	= 11.72%	= 13.03%	= 11.98%			= 9.70%	= 12.09%	= 11.49%
19	× 1.99	× 1.99	× 2.08	× 2.15%			× 2.42	× 2.43	× 2.31
20	= 26.31%	= 23.34%	= 27.07%	= 25.76%			= 23.49%	= 29.40%	= 26.55%
21	\$ 54,911	\$ 38,878	\$ 33,433	\$ 28,617	22.3%	15.6%	\$ 24,164	\$ 23,396	\$ 19,187
22	\$ 6,304	\$ 4,658	\$ 4,640	\$ 4,129	26.3%	19.8%	\$ 4,814	\$ 3,024	\$ 3,801
23	\$ 20,944	\$ 14,887	\$ 14,559	\$ 11,880	33.1%	20.6%	\$ 9,675	\$ 9,310	\$ 7,165
24	\$ 27,332	\$ 19,040	\$ 14,183	\$ 12,475	16.5%	10.2%	\$ 9,532	\$ 10,931	\$ 8,156
25	\$ 331	\$ 293	\$ 51	\$ 133			\$ 143	\$ 131	\$ 65
26	\$ 14,087	\$ 10,390	\$ 7,918	\$ 6,546	26.5%	35.3%	\$ 5,729	\$ 5,058	\$ 3,832
27	\$ 88	\$ 148	\$ 209	\$ 205			\$ 99	\$ 105	\$ 77
28	\$ 69,086	\$ 49,416	\$ 41,560	\$ 35,368	22.9%	13.0%	\$ 29,992	\$ 28,559	\$ 23,096
29	\$ 31,198	\$ 21,212	\$ 18,505	\$ 14,911	21.5%	17.0%	\$ 12,503	\$ 13,630	\$ 11,213
30	\$ 21,999	\$ 15,178	\$ 10,997	\$ 9,703	22.9%	14.7%	\$ 8,425	\$ 9,496	\$ 7,913
31	\$ 4,293	\$ 2,833	\$ 3,380	\$ 2,706	19.0%	20.5%	\$ 2,177	\$ 2,182	\$ 1,671
32	\$ 4,906	\$ 3,201	\$ 4,128	\$ 2,502	17.3%	26.5%	\$ 1,901	\$ 1,952	\$ 1,629
33	\$ 7,296	\$ 3,315	\$ 2,192	\$ 3,434	28.2%	16.0%	\$ 3,527	\$ 3,127	\$ 2,377
34	\$ 38,494	\$ 24,527	\$ 20,697	\$ 18,346	22.7%	16.6%	\$ 16,033	\$ 16,765	\$ 13,606
35	\$ 30,592	\$ 24,889	\$ 20,863	\$ 17,022	23.2%	19.8%	\$ 13,959	\$ 11,794	\$ 9,490
36	4.19	7.51	9.52	4.95			3.95	3.77	3.99
37	2.26	1.99	1.99	2.08			2.15	2.42	2.43
38	2,463	2,117	1,916	1,976			2,154	1,985	1,871
39	8,419	8,415	8,415	8,406			8,250	8,211	8,122
40	\$34.50-14.50	\$18.00-9.50	\$18.00-11.50	\$12.00-6.00			\$6.00-3.00	\$5.00-3.50	\$4.00-2.50

Performance Measurements*

Line 20, Return on Shareholder Equity, may be derived by dividing Net Earnings by Shareholder Equity. But this approach provides no understanding of why and how this return was attained. It is better to "take it from the top" and think through each major variable.

Asset Turnover is affected by sales volume, by the cash-credit marketing mix, and by the composition and perform-

ance of left-side balance sheet factors. The amounts of assets allocated to inventory, accounts receivable, and fixed assets, and the turnover rate of inventory and receivables, all affect Asset Turnover. For every \$1.00 in Assets at the beginning of fiscal 1972, Lowe's achieved \$3.40 in sales.

Return on Sales is the measurement of the efficiency of the sales organization. It is affected by sales volume, customer and product mix, and income statement factors—margin

		1964	1963	5 Year Compound Growth Rates	Base Year 1962	1961	1960	1959	1958	Base Year 1957	
35	1	28	22	24.6%	18	15	15	13	9	6	1
762	2	636	555	18.0%	491	399	360	334	273	215	2
1,284	3	1,141	883	14.9%	703	651	581	514	393	351	3
44.44	4	\$ 42.66	\$ 44.20		\$ 46.52	\$ 47.85	\$ 52.80	\$ 52.00	\$ 52.00	\$ 52.00	4
7,044	5	\$ 48,680	\$ 39,012	12.4%	\$ 32,716	\$ 31,128	\$ 30,679	\$ 27,005	\$ 20,444	\$ 18,233	5
9,942	6	\$ 3,086	\$ 2,438	20.5%	\$ 2,054	\$ 1,890	\$ 1,359	\$ 1,516	\$ 833	\$ 811	6
1,896	7	\$ 1,518	\$ 1,233	19.9%	\$ 1,034	\$ 956	\$ 641	\$ 760	\$ 429	\$ 418	7
2,046	8	\$ 1,568	\$ 1,205	21.0%	\$ 1,020	\$ 934	\$ 718	\$ 756	\$ 404	\$ 393	8
519	9	\$ 460	\$ 411	N/A	\$ 402	\$ 102	—	—	—	—	9
1,527	10	\$ 1,108	\$ 794	9.5%	\$ 618	\$ 832	\$ 718	\$ 756	\$ 404	\$ 393	10
7.10	11	\$ 6.14	\$ 4.91	12.4%	\$ 4.09	\$ 3.89	\$ 3.83	\$ 3.38	\$ 2.56	\$ 2.28	11
.25	12	\$.20	\$.16	21.0%	\$.13	\$.12	\$.09	\$.10	\$.05	\$.05	12
.06	13	\$.06	\$.05	N/A	\$.05	\$.01	—	—	—	—	13
.19	14	\$.14	\$.11	9.5%	\$.08	\$.11	\$.09	\$.10	\$.05	\$.05	14
1.17	15	\$.97	\$.80	26.8%	\$.71	\$.63	\$.46	\$.37	\$.27	\$.22	15
3.20	16	\$ 3.11	\$ 2.98		\$ 2.76	\$ 3.32	\$ 4.35	\$ 5.13	\$ 5.38	\$ 5.07	16
3.59%	17	× 3.22%	× 3.09%		× 3.12%	× 3.00%	× 2.34%	× 2.80%	× 1.98%	× 2.15%	17
11.49%	18	= 10.03%	= 9.20%		= 8.62%	= 9.96%	= 10.18%	= 14.36%	= 10.65%	= 10.90%	18
2.31	19	× 2.47	× 2.31		× 2.34	× 2.57	× 2.40	× 2.43	× 2.20	× 2.73	19
26.55%	20	= 24.78%	= 21.28%		= 20.23%	= 25.60%	= 24.43%	= 34.89%	= 23.40%	= 29.76%	20
9,187	21	\$ 15,350	\$ 13,976	29.3%	\$ 11,702	\$ 9,305	\$ 8,071	\$ 5,737	\$ 4,618	\$ 3,243	21
3,801	22	\$ 3,374	\$ 2,735	33.1%	\$ 1,956	\$ 1,299	\$ 442	\$ 365	\$ 583	\$ 468	22
7,165	23	\$ 5,586	\$ 4,968	40.7%	\$ 3,769	\$ 3,108	\$ 2,858	\$ 2,112	\$ 1,324	\$ 680	23
3,156	24	\$ 6,337	\$ 6,214	23.1%	\$ 5,868	\$ 4,801	\$ 4,755	\$ 3,164	\$ 2,655	\$ 2,072	24
65	25	\$ 53	\$ 59		\$ 109	\$ 97	\$ 16	\$ 96	\$ 56	\$ 23	25
3,832	26	\$ 2,381	\$ 1,531	18.1%	\$ 1,261	\$ 1,229	\$ 1,253	\$ 1,281	\$ 630	\$ 550	26
77	27	\$ 73	\$ 123		\$ 134	\$ 1,301	\$ 58	\$ 30	\$ 19	\$ 6	27
3,096	28	\$ 17,804	\$ 15,630	28.1%	\$ 13,097	\$ 11,835	\$ 9,382	\$ 7,048	\$ 5,267	\$ 3,799	28
1,213	29	\$ 7,454	\$ 7,123	26.2%	\$ 5,696	\$ 4,922	\$ 4,874	\$ 3,130	\$ 2,513	\$ 1,778	29
7,913	30	\$ 5,149	\$ 5,036	31.9%	\$ 4,255	\$ 3,187	\$ 2,827	\$ 1,562	\$ 1,724	\$ 1,068	30
1,671	31	\$ 1,142	\$ 1,073	17.3%	\$ 855	\$ 716	\$ 521	\$ 642	\$ 371	\$ 384	31
1,629	32	\$ 1,163	\$ 1,014	12.5%	\$ 586	\$ 1,019	\$ 1,526	\$ 926	\$ 418	\$ 326	32
2,377	33	\$ 2,615	\$ 2,139	41.9%	\$ 1,680	\$ 1,791	\$ 862	\$ 986	\$ 589	\$ 292	33
3,606	34	\$ 10,097	\$ 9,304	29.1%	\$ 7,435	\$ 6,792	\$ 5,736	\$ 4,116	\$ 3,102	\$ 2,070	34
9,490	35	\$ 7,707	\$ 6,326	26.8%	\$ 5,662	\$ 5,043	\$ 3,646	\$ 2,932	\$ 2,165	\$ 1,729	35
3.99	36	2.95	2.95		3.37	2.81	4.23	2.97	5.26	5.92	36
2.43	37	2.31	2.47		2.31	2.35	2.57	2.40	2.43	2.20	37
1,871	38	1,967	2,034		2,047						38
8,122	39	7,946	7,904		8,000	8,000	8,000	8,000	8,000	8,000	39
10-2.50	40	\$3.00-1.50	\$1.50-1.00		\$2.50-1.50						40

nts of fixed expenses, and tax rates. 1972's 3.89% was our highest return on sales to date. This multiplied by Asset Turnover, gives Return on Assets of 13.20%.

Leverage gets us into right-side balance sheet factors, and measures equity dollars versus total asset dollars. For every \$1.00 of shareholders' equity at the beginning of 1972, Lowe's had \$1.26 in other liabilities, thus financing \$2.26 in assets. The 2.26 leverage factor times the 13.20% Return on

Assets gives Return on Beginning Shareholder Equity of 29.81%. See page 8 for further discussion.

Compound Growth Rates

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

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LOWE'S

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