Lowe's 100 stores achieved $326,846,000 sales volume in 1973

Lowe's Companies, Inc./1973 Annual Report

Earnings per share grew 39% to $1.50

Here's What We Do

Lowe's Stores

We run 100 stores in 14 states. Each store combines the merchandise, service, and functions of a lumber yard, a building materials supplier, an air conditioning, heating, plumbing, and electrical supply center, a hardware store, an appliance and home electronics dealer, a hard goods discounter, and a hard-hitting marketing company.

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 63% of Lowe's record sales volume in 1973. A wide variety of Retail Customers, including home owners, do-it-yourselfers, farmers, and suburbanites, bought 37%. 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.

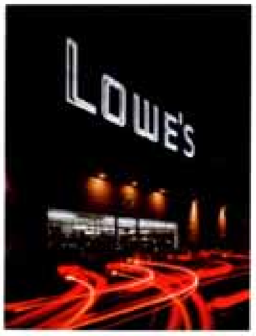
Lowe's management is dedicated to the continuing growth and expansion of opportunity, jobs, stores, sales, and earnings per share, for the benefit of our customers, our suppliers, our business associates, our employees, and our shareholders.

Contents

Annual Meeting

November 26, 1973, 2:00 P. M.
Lowe's General Office
North Wilkesboro, N. C.

Here's How We Did



Highlights *of the Year Ended July 31:*

	Change 1972-1973	1973	1972	1971
Total Dollars:				
Sales	+39.3%	$326,846,108	$234,556,133	$169,722,859
Pre-Tax Earnings	+39.9%	$ 25,393,076	$ 18,142,568	$ 13,027,470
Taxes on Earnings	+40.4%	$ 12,665,144	$ 9,021,981	$ 6,479,881
Net Earnings for Shareholders	+39.5%	$ 12,727,932	$ 9,120,587	$ 6,547,589
Cash Dividends Paid	+ 7.5%	$ 1,017,268	$ 946,119	$ 907,027
Earnings Retained and Reinvested	+43.2%	$ 11,710,664	$ 8,174,468	$ 5,640,562
Per Share:(1)				
Sales	+38.7%	$38.57	$27.81	$20.16
Earnings	+38.9%	$ 1.50	$ 1.08	$ .78
Dividends	+ 7.0%	$ .12	$ .11	$ .11
Earnings Retained and Reinvested	+42.3%	$ 1.38	$ .97	$ .67
Performance Measurements:(2)				
Asset Turnover		3.65	3.40	3.43
Return on Sales		× 3.89%	× 3.89%	× 3.86%
Return on Assets		= 14.22%	= 13.20%	= 13.25%
Leverage Factor		× 2.28	× 2.26	× 1.99
Return on Shareholders' Equity		= 32.42%	= 29.81%	= 26.31%
Five Year Earnings Per Share Growth Rate		28.39%	26.01%	18.07%

(1) To nearest whole cent. Change % computed from precise figures, page 17.
(2) See pages 14, 49 and 50 for explanatory notes.

LOWE'S Companies, Inc.

Lowe's Office of the President, in its 16th year together. From left: Leonard G. Herring, Robert L. Strickland, Petro Kulynych, John A. Walker, Joe V. Reinhardt.

Fiscal 1973: This has been a superlative year, when the fulfillment of our marketing opportunities enabled us to achieve our second consecutive 39% increase in earnings. The economic climate in housing and retailing has again been excellent throughout the year and we have moved with directness to maximize these opportunities.

Sales Momentum: As shown on page 1, we have moved in just two years from the ranks of the $100,000,000 companies to those achieving $300,000,000 in sales. Our sales increase in fiscal 1973 was $92,290,000, a growth of 39%. For the third consecutive year, both the total sales volume and the dollar increase are new Lowe's records. Our sales have grown at average annual compound rates of 20.3% for the last 15 years, 23.7% for the last 10, and 27.5% for the last 5. No acquisitions have been made, so this accelerating growth is all internally generated.

Earnings Growth: Reflecting this surge of business, our net earnings after taxes again displayed healthy growth. Here also for the third consecutive year, both the earnings total of $12,728,000, and the dollar increase of $3,643,000 were new record levels for Lowe's. In fact, the increase alone surpassed 1968's total net profit after taxes. We maintained our net return on sales at last year's 3.89%. Our net earnings after taxes have grown at average annual compound growth rates of 25.5% for the last 15 years, 25.1% for the last 10, and 28.4% for the last 5 years.

Cash Dividends: During this fiscal year, Lowe's cash dividends paid quarterly to shareholders totaled $1,017,268, passing the million dollar mark for the first time. The May 1, 1973 dividend was Lowe's 48th consecutive quarterly cash payment, and management feels justifiably proud of this 12 year unbroken stream of cash dividend payments. Our dividend growth rate is 9.5% annually compounded for the last 10 years, 6.1% for the last 5 years.

***"...a superlative year,* when fulfilled marketing opportunities achieved our second consecutive 39% earnings growth."**

President's Letter to Shareholders

Taxes: Total tax liabilities maintained their relatively stable, and high, proportion of earnings before taxes. As a percentage of net profit before tax, total taxes were 49.7% in 1972, and edged upward to 49.9% in 1973.

Store Expansion: Lowe's opened more new stores in fiscal 1973 than in any previous year. Fourteen new ones, bringing our total to the very nice round total of 100, were opened in the following locations: Louisville, Kentucky; Clarksville, Tennessee; Harrisonburg, Virginia; Morgantown, West Virginia; Pensacola, Florida; Orangeburg, and Spartanburg, South Carolina; Jacksonville, and Kannapolis, North Carolina; and Birmingham, Gadsden, Huntsville, Mobile, and Tuscaloosa, Alabama. All opening expenses have been charged against the 1973 Income Statement. Again this year, these are new-generation Lowe's stores, designed and built for superior customer sales and service. This new, larger store facility plan is just three years old, but has already been established in 40% of our locations.

Financial Comments: We again invite your attention to Lowe's strengthening financial position during a time of rapid growth. Since fiscal 1971, Shareholder Equity has increased 69%, from \$30,592,000 to \$51,782,000. We do not plan any new public stock issue since Lowe's continues to generate funds internally for the expansion of working capital. These retained earnings will be augmented by long-term debt on real estate and proceeds from exercise of employee stock options, and reinvested for growth.

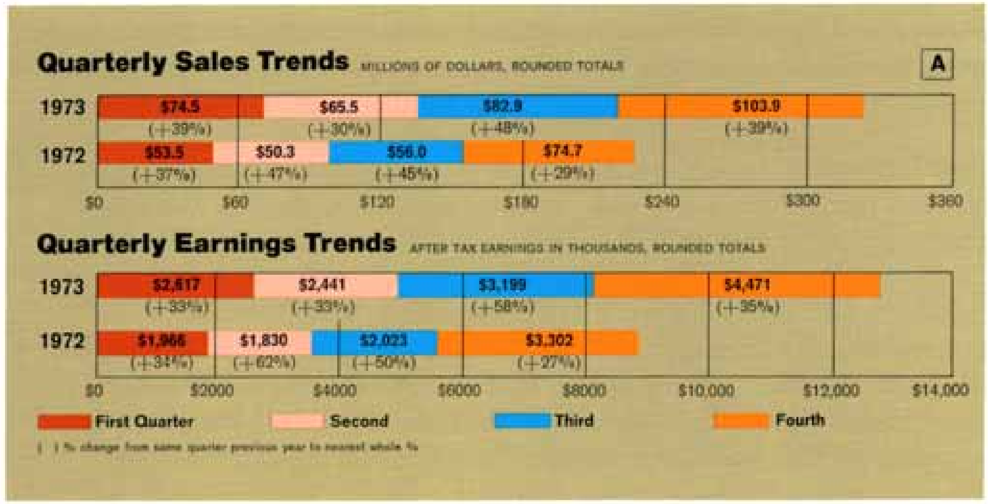
Outlook: Once again, the specter of tight money and a slowdown in housing rears its thoroughly ugly visage. But as we said in 1969, it is the mission of management to perform in changing environments, and we are committing ourselves to a year of hard, smart work, with increased emphasis on retail marketing, and the improvement of our market penetration efforts to the home building industry. Twice in the last few years, this kind of defensive strategy in relatively poor market climates has fueled tremendous growth in succeeding good climates. Certainly basic demand for Lowe's goods and services remains strong, and the economic growth of our geographic area (see pages 25 to 31) has unparalleled long range strength and growth attributes, and potential for Lowe's future.

Other: Just as we write this report, we are saddened by the passing of our beloved Chairman of twelve years, Mr. Edwin Duncan, Sr. A leader, colleague, and friend, his contributions and counsel over the years have been manifold. A titan of a man, he is mourned and missed by so many. We close this 1973 Annual Report as he liked to do, with a sincere expression of appreciation to all the Lowe's team — our shareholders, our employees, our customers, our suppliers, our associates and friends, for your confidence, your achievements, and your dedication to Lowe's progress.

Office of the President,
LOWE'S COMPANIES, INC.,
North Wilkesboro, N.C.

President's Report

The Year in Review



Perspective, 1973: Again this year, every major component of Lowe's made important contributions to the year's record breaking progress and growth. Continuing as a vital factor was an excellent economic and business climate. *Business Week's* prophetic cover article of September 2, 1972, was titled "The New Rich South, America's frontier for economic growth in the 1970's." It stated: "During the past decade — personal income, jobs, and markets — 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, pages 25 through 31, substantiate this outlook. More importantly, so do actual performance results in fiscal 1973.

Sales: A Quarterly Review: Shown in Chart A are trends and totals of sales in fiscal 1972 and fiscal 1973 for quarters ending October 31, January 31, April 30, and July 31 of fiscal years 1972 and 1973. These first quarter sales growth rates of +37% and +39% well exceed our 5-year first quarter growth rate of +26%. The second quarter increases of +47% and +30% compare with 5-year average growth rates of +28% in the second quarter. The third quarter growth rates of +45% and+48% for the two years shown far surpass our 5-year average third quarter growth rate of +29%. Finally, recent fourth quarter growth rates of +29% and +39% are greater than the 5-year growth rates of +28%. Besides the business climate, varying factors were added promotional efforts and late-year new store openings.

Earnings: A Quarterly Review: Also shown in Chart A are recent trends and totals of earnings in fiscal 1972 and fiscal 1973 for Lowe's four fiscal quarters. The first quarter rates of +34% and +33% improved upon our 5-year average rate of +26%. 1972's outstanding +62% and 1973's +33% exceed the +32% five-year rate. Here also, the third quarter rates of +50% and +58% far surpass our last average 5-year rate of +32%. However, only 1973's fourth quarter growth of +35% exceeds our 5-year average growth of +27%. As may be ascertained from Chart A, Lowe's normal pattern is for Earnings' % of the total year to lag behind Sales' %, of the total year, in all quarters except the fourth. The single most important reason is the relation of fixed and variable costs to our quarterly sales volume.

"...every major component of Lowe's made ***important contributions****..."*

Store Performance: For the third successive year, our individual stores have achieved balanced performance and increased market penetration on a store by store basis. Two stores had sales declines, however every other store beat last year and also recorded a new individual high in annual sales volume. As indicated in Table B, the 86 stores that were open at the beginning of fiscal 1973 provided $311,695,000 in total sales volume. This was a growth of 33% over their 1972 total, which contributed $77,135,000 or 84% of our total sales increase for the year. As shown, the 14 new stores opened during the year provided 16% of the gain, with total sales of $15,150,000. Seven of these stores were opened in the last half of the year, and should provide additional sales growth in fiscal 1974, just as the 11 new stores of 1972 increased their volume from $5,730,000 to $27,385,000 this year. The booming housing market and our continuing retail growth has enabled us to achieve a significant third consecutive growth in sales per store — $3,624,000 for all stores open for the full year. The challenge of course, in a slower housing year, is the maintenance of a high sales per store average through the marketing plans and programs discussed on pages 8 through 11.

Sales Floor Growth and Sales Per Square Foot: By the beginning of fiscal 1971, we had reached an important policy decision for store expansion. Our new policy was to build all our stores like the one shown on page 4, in accessible retail locations instead of industrial parks, with 4 to 6 acres instead of 2 to 3, with more parking, better service facilities and with 11,500 square foot sales floors instead of 6,000. In retrospect, this decision sounds simple and noncontroversial. One can't imagine a K-Mart store in an old DeSoto dealership building, or McDonald's trying to sell Big Macs from an old hot dog stand. But rents are naturally higher, and owning more fixed assets is increasing our debt structure. (See pages 16 through 18).

However, the sales and marketing results are now a matter of record, shown in Table C. In three years, our sales floor growth from 366,000 to 832,000 square feet, an increase of 127%, has been accompanied by increased sales per square foot. We believe that retail sales per square foot is the more relevant measure, since much of our builder business is telephone-confirmed and Lowe's-delivered, and the maintenance of these retail sales figures during this rapid increase in square footage underscores consumer demand for Lowe's merchandise in a modern sales and display environment.

Price Levels: Prices of construction materials have risen during this fiscal year. Table D traces the price index of certain major product groups. Table 9 on page 28 presents a more detailed treatment. The building boom has very obviously brought a higher price level to building materials, with the six month average index for 1973 about 7.7% higher than for the year 1972. In one perspective, this is the first time in recent years that this index (and the food index) have been measurably higher than the consumer price index. And when one considers both the overall inflationary trends, and the emerging serious shortages of basics — fuel, steel, paper — we believe most construction material prices will hold relatively firm. Of course there are exceptions. Lumber and plywood prices are particularly volatile and susceptible to short-range demand changes. These price changes do affect sales, and can affect operating margins. However our inventory turnover is high — 7.7 times in 1973 compared to an industry average of 5.9 — and our turnover rates of lumber and plywood are higher than our 7.7 average. We maintain daily telephone and teletype communication with market buying prices and with our stores. Thus we can move quickly to meet market changes and to protect our operating margins.

Lowe's Store Sales **B**

			Total Sales*	Average Sales Per Store*
Fiscal 1970				
57	"OLD"	STORES	$122,640	$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	
Fiscal 1973				
75	1971	STORES	$284,310	$3,791
11	1972	STORES	27,385	
86	"OLD"	STORES	$311,695	$3,624
14	1973	STORES	15,150	
100	TOTAL	STORES	$326,845	

*Thousands of dollars, Rounded Totals

Lowe's Sales Floor Growth **C**

Fiscal Year End	Number of Stores	Total Area Sales Floors*	Average Sales Floors*	Total Sales (000)	Average Sales Per Square Foot**	Average Retail Sales Per Square Foot**
1970	64	366,000	5,700	$128,491	$376	$157
1971	75	489,000	6,500	$169,720	$397	$153
1972	86	635,000	7,400	$234,560	$417	$157
1973	100	832,000	8,320	$326,845	$446	$165

* Square Footage.

** Total sales for year, divided by average sales floor area during year.

Price Index Ranges **D**

1967 = 100, Calendar Years

Consumer Price Index		Food	
1970	116.3	1970	114.9
1971	121.3	1971	118.4
1972	125.3	1972	123.5
1973*	130.1	1973*	134.7
All Durable Commodities		**All Construction Materials**	
1970	111.8	1970	112.5
1971	116.5	1971	119.5
1972	118.9	1972	126.6
1973*	120.9	1973*	136.3
Southern Lumber		**Plywood**	
1970	114.5	1970	108.5
1971	133.8	1971	114.7
1972	151.5	1972	130.7
1973*	175.9	1973*	162.6
Gypsum Wallboard		**Plumbing**	
1970	93.4	1970	112.5
1971	99.7	1971	116.4
1972	107.8	1972	119.7
1973*	112.3	1973*	123.8

*Average, First 6 Months

SOURCE: CONSTRUCTION REVIEW, ECONOMIC INDICATORS

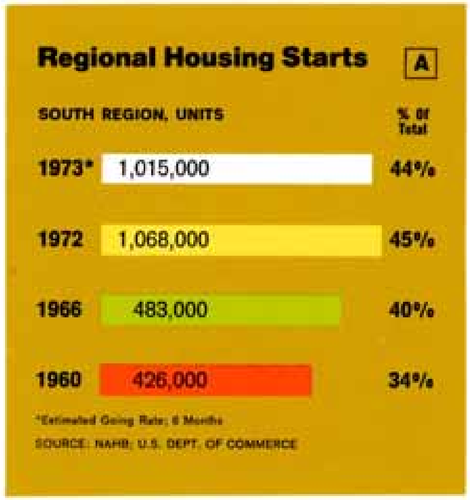
The Marketing Mix

The Moment of Profitability: Lowe's moment of profit generation occurs when a customer buys a product from a Lowe's salesman at a Lowe's store. Detailed on these two pages are these principal elements of our marketing mix — trends, factors, totals and growth rates of our geographic operating area, our customers, and our product line.

Regional Housing Starts: An important measure of our marketing-mix environment is shown in Chart A, which chronicles growth of housing starts in the South. By Department of Commerce definition, the "South" is the area shown on the map on page 46, less Pennsylvania, Ohio, and Indiana, plus Arkansas, Oklahoma, and Texas. Thus 97 of Lowe's 100 stores are in the South. We expect this region's percent of total housing to be maintained.

Regional Retail Sales: Shown in Chart D is another pertinent measure of Lowe's marketing environment — retail sales of Durable Goods in the South — and totals and trends therein.

Customers Served: Lowe's customer transactions increased by 23% in 1973, up from our recent growth rates of 18%. Good builder business and "big-ticket" consumer goods brought our average customer purchase to $69.29.



The Marketing Basic: To a marketing company, serving customers is the name of the game. Therefore, 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.

Customer Sales Trends: Table B presents a 5-year customer sales analysis. Professional Buyers, primarily associated with the home building industry, including contractors, developers, builders, and carpenters, bought 63% of 1973's record sales volume, a total of $205,900,000. This 63% compares with the 58% to 67% range shown, and with 71% of total in 1966. 1970's decline in both % and dollars should be noted, as well as the last three years' increases. Retail Customers are primarily home owners buying for personal use. Although this 37% of total has declined from 1970's high of 42%, it was only 29% in 1966, and the 5-year compound growth rate still exceeds company average. "Once More With Feeling," we shall emphasize retail sales growth in fiscal 1974.

Lowe's Customer Sales Trends B

	1968		1969		1970		1971		1972		1973		C.G.R.**
	Sales	% Of Total	Sales	% Of Total	Sales	% Of Total	Sales	% Of Total	Sales	% Of Total	Sales	% Of Total	
Professional	$63,930	66%	$ 79,760	67%	$ 75,100	58%	$104,050	61%	$146,290	62%	$205,900	63%	
Change*:	+27%		+25%		− 6%		+39%		+41%		+41%		+26.4%
Retail Customer	$33,100	34%	$ 39,290	33%	$ 53,400	42%	$ 65,670	39%	$ 88,270	38%	$120,945	37%	
Change*:	+31%		+19%		+36%		+23%		+34%		+37%		+29.6%
Total	$97,030	100%	$119,050	100%	$128,500	100%	$169,720	100%	$234,560	100%	$326,845	100%	
Change*:	+28%		+23%		+ 8%		+32%		+38%		+39%		+27.5%

Rounded Figures, Thousands of Dollars
Percentages Rounded to Nearest Whole %

*Change from previous year
**C.G.R.: Five Year Compound Growth Rates

Lowe's Product Sales Trends

C

	1968		1969		1970		1971		1972		1973			
CATEGORY	Sales	% Of Total	Sales	% Of Total	Sales	% Of Total	Sales	% Of Total	Sales	% Of Total	Sales	Change	% Of Total	C.G.R.#
1	$21,150	21.8	$ 27,650	23.2	$ 25,760	20.0	$ 37,150	21.9	$ 57,250	24.4	$ 85,245	+49%	26.1	32.2%
2	49,000	50.5	60,040	50.4	62,565	48.7	81,730	48.2	112,860	48.1	152,600	+35%	46.6	25.5%
3	7,960	8.2	9,010	7.6	10,880	8.5	14,550	8.6	19,910	8.5	28,300	+42%	8.7	28.9%
4	7,760	8.0	10,100	8.5	12,050	9.4	16,970	10.0	20,380	8.7	25,800	+27%	8.0	27.2%
5	6,500	6.7	7,130	6.0	8,760	6.8	10,010	5.9	13,620	5.8	20,100	+48%	6.1	25.3%
6	4,660	4.8	5,120	4.3	7,170	5.6	7,160	4.2	8,830	3.8	11,900	+35%	3.6	20.6%
7					1,315	1.0	2,150	1.2	1,710	.7	2,900	+70%	.9	30.2%
Total	$97,030	100	$119,050	100	$128,500	100	$169,720	100	$234,560	100	$326,845	+39%	100	27.5%

Rounded Figures, Thousands of Dollars

#Compound Growth Rate, 1968 through 1973 — Mobile Homes: 1970 through 1973

Product Line Sales Analysis: Listed here are the products we sell, grouped in seven major categories. Table C above shows the sales performance of these categories and their 5-year growth rate. We do not list "net product profit," because our stores are our profit centers.

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.
4. Home Appliances: Ranges and refrigerators, washers and dryers, freezers, air-conditioners, water heaters, dishwashers and disposals.
5. House and Yard: Power lawn mowers, riding mowers, garden tillers, power tools, hand tools, electric housewares, bicycles, outdoor living equipment, mini-bikes, campers, housewares, giftwares, and sporting goods.
6. Home Entertainment: Color and black and white television, tape recorders and stereo equipment.
7. Mobile Homes: Factory built housing.

Regional Retail Sales

D

SOUTH REGION, DURABLE GOODS, BILLIONS OF DOLLARS

		% Change	% Of Total
1973*	$58.3	+21%	33%
1972	$48.2	+17%	32%
1971	$41.1	+26%	31%
1970	$32.5		28%

*Going Rate, 6 Months

SOURCE: U. S. DEPT. OF COMMERCE

Trend Analysis: An understanding study of these product sales trends and growth rates can best be made with a simultaneous review of the changing trends in Lowe's customer mix, shown in Table A. Our point is that both major customer groups are markets for, and do make purchases of, each of these seven product categories, with the exception of Mobile Homes, which is virtually 100% retail.

This year, all seven product categories posted sales increases, for the first time since fiscal 1969. Lumber achieved its second consecutive large sales increase, more than doubling the 1971 sales levels, due in part, however, to price increases. Building Materials increased by 35%, a growth of almost $40 million. But with Lumber's growth, and our product line expansion in other categories, Building Materials continue to slip as a % of total while growing in absolute dollar volume. Building Hardware has had above average growth rates in recent years, and as discussed on page 8, has continuing potential for growth. The compound growth rate of Home Appliances most closely compares to company average. House and Yard product sales also posted high gains, with 1973 results doubling the 1971 totals. Home Entertainment's 35% gain equalled Building Materials'. But the greatest gain was Mobile Homes' 70%.

New Directions and Programs

Lowe's Homestead: In November, 1970, we introduced an innovative marketing program, the Lowe's Homestead house. This was 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 1972, eleven more plan selections were added, and the sales volume tripled. During 1973, the augmented portfolio pictured offered 32 different homes to builders, including vacation homes, single-family residences, duplexes and townhouses. The sales volume soared to $23,175,000, almost 3,000 homes, but the significance of the Homestead program is more far-reaching. Here is a viable, profitable, systems approach to home building which is working, while modular and factory housing techniques are not making a major market impact.

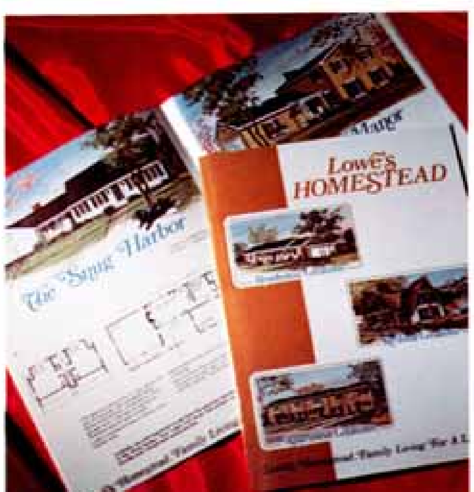
For each Homestead, we quote one price and we guarantee to furnish all materials required to build the house to its architecturally-designed and code-meeting plans and specifications.

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 materials which heretofore obsoleted hand-done material list price quotations are no longer a problem. In minutes, our computers process the price changes and recalculate the Homestead 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 building sequence.

The basic Homestead plan offers a complete house from foundation to roof at a materials cost of about $5.60 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 for each plan in the Homestead brochure.

This systems concept will continue to grow in importance to our customers.



Envi-Ro-Temp: As shown in Chart C on the previous page, Building Hardware, Category 3, posted a fine sales growth of 42%. A major contributor to this growth is a dynamic new marketing program under our new trademarked private label — Envi-Ro-Temp. We merchandise these products as home comfort systems because a customer doesn't really want central air or a furnace when he purchases one of our systems. What he really wants is a means to control his environment. Warm air heating systems have steadily moved to the forefront in residential market acceptance, and a powerful factor in this has been the development of accessory systems which can utilize the existing furnace blower and ductwork. Central air conditioning is most noteworthy, but humidity control systems and electronic air cleaning equipment are rapidly gaining in popularity and all of these can be used in conjunction with a warm air furnace to provide a complete home comfort system. Our Envi-Ro-Temp product line has been expanded to include all important options for improved control of home environment.

Our Envi-Ro-Temp program began in the second half of fiscal 1973, with new emphasis on central air conditioning and mobile home central air, a new product for Lowe's. And in conjunction with our Improvers program, we offered the product at an installed price in most of our advertising. Market demand and acceptance were outstanding.

The first half of fiscal 1974 will be the first real season for the Envi-Ro-Temp line of central heating systems. We have been selling central heating for some years, and of course the market for air conditioning and air cleaning is much less saturated. However, fuel shortages are causing many homeowners to seek more efficient, or alternate, heating systems. For many reasons, therefore, we feel confident that our Envi-Ro-Temp marketing program will prove to be of continuing significance to Lowe's growth and development.

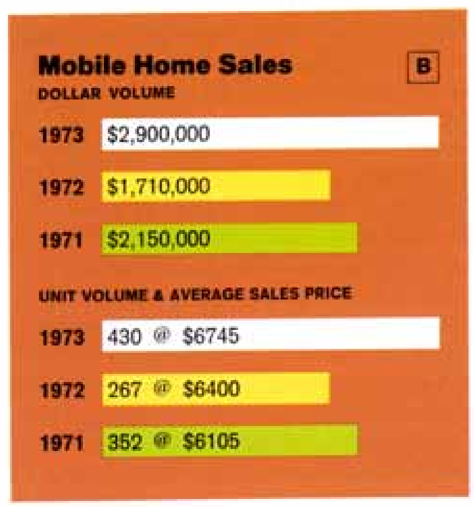
Pre-Assembled Components: As a service to our builder customers, Lowe's custom-builds door and window units to fit their individual needs. This program, begun on an experimental basis in fiscal 1971, has been welcomed in the market place and expanded each year since. Now 69 stores produce door units and window units and we plan to include all Lowe's stores in this program when physical facilities and market demand dictate expansion.

We augmented our component assembly operations, by the custom-building of roof trusses, in 20 Lowe's stores during 1973. Roof trusses replace conventional rafter roof framing and save on-site labor costs. We will continue to evaluate the market acceptance and subsequent expansion of this service.

Ranchettes: Shown in Chart B is the dramatic sales turn-around our Ranchette mobile home program made in fiscal 1973. Renewed emphasis has been given to this program in light of the growth and maturation of the mobile home industry as a significant factor in today's housing market. As amplified in Chart 16, page 31, these homes have become America's only important factory-produced housing, and our Southern region accounts for half the nation's sales volume.

We do not manufacture these homes, but buy them from regional producers for retail sale. We began the year with six sales centers and added three new ones during the year. All existing locations had significant increases in sales and profitability, and contributed to an overall 70% sales increase, to almost $3,000,000.

Plans for 1974 call for continuing growth, with 9 to 12 new sales centers to be opened. Therefore we forecast additional sales growth and we are confident these goals can be achieved, because of the high quality of the product we sell (as shown by the photo of the interior of one of Lowe's homes), the services we offer, our convenient credit, and Lowe's market acceptance.



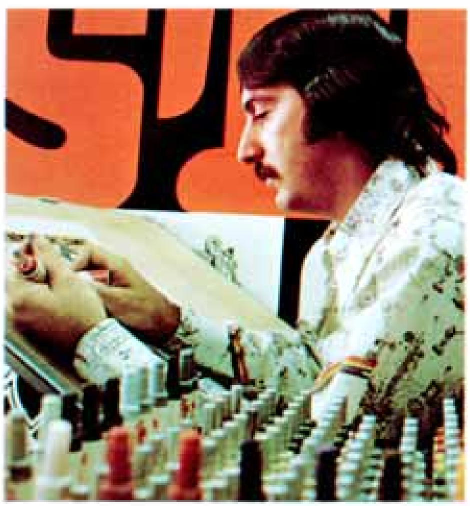
New Directions and Programs

Lowe's Improver Program: A potentially important new service to customers was begun this year. We call it "The Improvers." This program is based on a simple yet powerful marketing truth. People want a product's benefits more than they want the product itself. When there's no more hot water in the shower, your fundamental desire is not the white metal cylindrical fabrication called a water heater. All you really want is hot water again. Most ladies dislike big brown boxes in their living room windows; however, they do like the cool comfort that an air conditioner provides. Lowe's merchandise line is filled with products that require professional installation — chain link fencing, dishwashers, the many Envi-Ro-Temp products, asphalt roofing shingles, and hundreds more. Heretofore, we have only offered the product for sale, and recommended third party installers we believed to be reliable. For our Improver program to maximize its contribution to Lowe's will require three phases (although we're getting tired of that word). The first phase is the realization on the part of Lowe's that there are tremendous long range marketing opportunities and vital customer-satisfaction responsibilities in being able to quote our products installed and ready for use. We'd rather sell new hot water for $99.00 than a new water heater for $55.00 and our customers would rather buy that way too. This phase has been realized by management. We undertook the second phase this year and began staffing selected stores with Improver sales managers, who quote and contract installed prices, arrange and supervise outside installation, and are responsible to Lowe's customers for the satisfactory completion of the job. No tougher time to launch a program which needed services of carpenters and electricians can be imagined than during the building boom of the last twelve months. Yet, if you want to belong, you have to start paying dues, and we have gained valued experience, and made some sales this year. In phase 3, long range, we want to be able to afford Lowe's own installation crews. Quality control and cost control must balance, and our profit-sharing plan and other incentive programs, plus North Carolina's well-established network of community colleges offering vocational training are long range pluses for this objective. And customer demand for this new product-service mix is strong, and can only increase in the future. Our goal is to be Improvers in the word's largest sense.

Marketing Research: Our research efforts take varied forms. 16,000 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 conferences between store management and the regional management staffs.

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, including our Sterling Advertising Agency, a relatively young but solidly professional group, have brought 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, by maintaining a competitive superiority, and by continuing to enhance Lowe's corporate image and reputation.

Re-writing the advertising record books has become a pleasant habit at Lowe's, and fiscal 1973 was no exception. Our customer count for the year was 4,717,000, 23% more than 1972.

Consumer Reference Library: The Brand Names Foundation, of which Lowe's is a Charter Retail Member, is sponsoring a new campaign for 1973 to encourage the establishment of Consumer Information Centers.

To support the Brand Names Foundation with our "Improver" philosophy, we have begun the compilation of a Consumer Product Reference Library at each Lowe's store. We are beginning with our 1973 Buyer's Guide, which is distributed free to all shoppers. This edition is our largest yet at 128 pages and is a unique, specialty publication. Yet Sterling's group of researchers, artists and writers are already at work on an enlarged edition, with vastly increased consumer information. Perhaps more importantly, we are consulting reference libraries, our suppliers, trade associations, and governmental sources, to organize material for this Consumer Product Reference Library. We believe that Lowe's can obtain, organize, and distribute this information successfully and economically, and that this activity will be in the specific best interest of two important groups of Lowe's people — our customers and our shareholders.

Growth and Expansion

Growth: Lowe's management assignment is growth. Growth in stores and ability to make a contribution to our customers. Growth in job opportunity for our employees. And for our shareholders, sustained return on your investment, and growth in earnings per share.

Sales & Store Growth Rates: From 1963 through 1973, Lowe's sales volume has increased at a 23.7% annual compound rate. During this same period, sales volume in the 18 of the 1963 markets open that full year has grown at a 9.4% annual rate. The balance, of course, came from new stores, which have been opened at a compound rate of 16.4%. Obviously, the 10-year 9.4% growth rate in long-established stores indicates additional sales growth potential in the present 100 markets.

Earnings Growth: From 1963 through 1973, net earnings have grown from $1,205,000 to $12,728,000, an average annual growth rate of 26.6%. The growth rate of earnings per share during this same period has been 25.1%.

Performance: Our objective is also to post a balanced performance. In that regard, we believe that an important measure of a company's performance is the rate of return on stockholders' equity. As shown in Performance Measurements in the 16-year review on pages 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.

A better measurement of operating management is return on total assets, and we believe that beginning assets is the more relevant figure. In a real sense, the Board of Directors, at the beginning of each fiscal year, entrusts the assets of the company to operating management. Lowe's record here is also shown in the 16-year review, with recent trends upward, and 14.22% return this year.

Expansion Department: Determining store locations on a priority basis is the job of Lowe's Expansion Department.

Led by Wade Dupree, shown in the top photo here are executives who have become experts in real estate, zoning, and the myriad problems encountered in securing the right store locations. The second stage of store expansion requires engineering expertise and the ability to coordinate the abilities and efforts of the various outside contractors who build our new stores over our 14 state area. Ken Canter, shown below, is the executive in charge of this aspect of expansion, and currently has more buildings under construction than ever before in Lowe's history. Once the outside contractor finishes the basic building, Rome Christie, shown on the next page, brings in a Lowe's crew of men for an assignment that combines hundreds of details with hundreds of man-hours of physical labor — to literally create a sparkling Lowe's sales floor from a 12,000 foot empty room. Six thousand products must be uncrated, priced and displayed. Signs, banners, telephones and equipment are somehow always in place, when Rome turns the store keys over to our new manager, just before the inexorable deadline of the gala Grand Opening.

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.

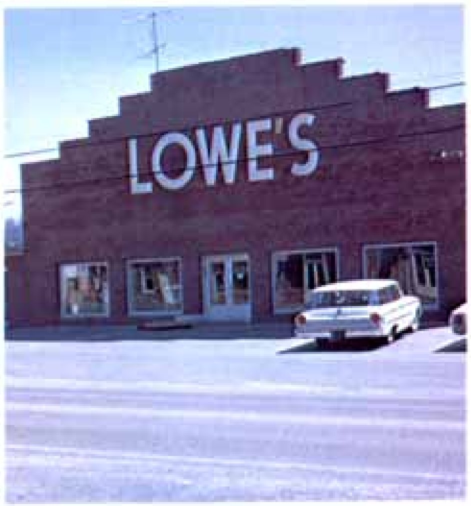
However, these same benefits and reasons apply even more strongly to new locations within Lowe's present perimeter, or sphere of influence. And as the economic activity of our market area has increased, we find that towns that previously have been passed over in favor of higher-priority areas, are now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

Recent Perspective: 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 $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, for total sales of $330,000,000.

Three major developments have affected this growth plan: new store facilities, marketing changes, and the marketing climate. Our total requirements for our new store facilities, discussed on page 5, have caused longer lead times than we then anticipated. 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. However, our expanded field expansion staff is successfully coping with these problems and for the first time since 1970, we have an adequate number of expansion locations purchased or on option so that management can control new store numbers based on judgmental factors.

The second major development has been significant, for it has propelled our sales growth. 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 downtown in 1970, but have been most beneficial during the third major development —



the good market climate of the last three years. Specifically, sales per store rose 25% in 1971 to $2,500,000, and 20% in 1972, to $3,000,000, for a total increase of 50% over the 1960's.

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 Boone 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 sales in certain stores, we have devoted time and funds to their improvement.

In 1972, we relocated and rebuilt the Charlottesville store. In 1973, we relocated and rebuilt Asheville, Boone, Bristol, Rockingham, and Winston-Salem. As our standards keep increasing, this renewal and modernization of present profitable stores must continue and action is underway to improve more existing stores in 1974, via priority.

A measure of the results of these moves may be seen on page 5 in the table on Sales Floor Growth. In 1971, 1972, and 1973, we opened 36 new stores in new markets, less than originally planned. This was 56% growth in stores. However, these larger showrooms and our store relocation program increased total sales floor area by 127% in three years. As the sales per square foot show, our customers are responding to this store growth, and in a fine housing year, we have enjoyed our third successive major increase in sales per store, to $3,600,000. The success of these tactical changes in our growth plan is best quantified by comparing that original sales target of $330,000,000 in 1975, with our actual sales of $326,846,000 in 1973.

Performance Measurements

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 A. 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, For a full discussion of this formula, its variables, and results, see pages 48 & 50.

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 1973 return on average equity was 27.96%. 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 fiscal 1974's beginning assets are $125,714,000. $400,000,000 in sales will require $3.18 in asset turnover. Each major factor can be forecast, and 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 decrease while asset turnover increases, or vice-versa. Our objective is not to try to maximize a single factor at the expense of the others, but to manage each of them to optimize returns and growth.

Anatomy: Performance and Growth [A]

	1973	1972	1971	1970
Asset Turnover (Sales ÷ Assets) Times	$ 3.65	$ 3.40	$ 3.43	$ 3.09
Return on Sales (Net Earnings ÷ Sales) Equals	3.89%	3.89%	3.86%	3.79%
Return on Assets (Net Earnings ÷ Assets) Times	14.22%	13.20%	13.25%	11.72%
Leverage (Assets ÷ Equity) Equals	2.28	2.26	1.99	1.99
Return on Shareholder Equity (Net Earnings ÷ Equity)	32.42%	29.81%	26.31%	23.34%

Note: Components are rounded, therefore multiplied versus divided totals vary slightly.

Productivity: Turnover, leverage, and mathematical models are largely conceptual. Lowe's real and unique assets are our people, their personality, their drive, their motivation, and their record of increasing productivity shown in Table B. Since 1969, our employees have increased 121%, yet their efficiency and performance have increased. The comparison with other companies below is meaningful.

Performance Comparisons: Table B also includes 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 and Evans' growth rate in earnings per share prove that giant companies can be nimble performers. And growth is not diluting Lowe's performance. During these years, sales per employee increased 24%, and net profit per employee increased by 25%. These comparisons reinforce management's policy decisions not to try to be all things to all people, not to chase each grass-is-greener prospect, but to invest our resources of time, energy, experience, and growth investment funds into additional Lowe's stores as our basic growth policy.

Performance Measurements and Comparisons [B]

	Total Sales (000,000) (1)	Total Profits (000,000) (1)	Total Assets (000,000) (1)	Total Equity (000,000) (1)	Asset Turnover ×	Return On Sales (%) =	Return On Assets (%) (2) ×	Leverage Factor =	Return On Equity (%) (2)	Earnings Per Share C.G.R. (3)	Number of Employees (4)	Sales Per Employee (5)	Profit Per Employee (6)
Sears	$10,991	$622	$9,326	$4,515	$1.18	5.66	6.67	2.07	13.8	9.96%	380,000	$ 28,900	$1,636
Penney	5,530	163	2,154	1,138	2.57	2.94	7.57	1.89	14.3	10.03%	168,500	32,800	965
Kresge	3,875	115	1,383	780	2.80	2.96	8.29	1.77	14.7	27.23%	112,000	34,600	1,024
Marcor	3,369	73	2,523	957	1.34	2.16	2.88	2.63	7.6	11.21%	128,200	26,300	567
Woolworth	3,148	79	1,720	891	1.83	2.51	4.60	1.93	8.9	5.87%	200,000	15,700	395
Evans	938.0	28.4	589.1	244.3	1.59	3.02	4.81	2.41	11.6	45.58%	14,000	62,500	2,026
Wickes	873.4	16.9	363.6	175.0	2.40	1.94	4.65	2.08	9.7	5.61%	14,130	61,800	1,198
Lowe's: 1973	326.8	12.7	125.7	51.8	2.61	3.89	10.12	2.43	24.6	25.08%	2,963	110,300	4,295
1972	234.6	9.0	89.5	39.3	2.62	3.89	10.10	2.28	22.9	23.58%	2,350	99,800	3,880
1971	169.7	6.5	69.1	30.6	2.46	3.86	9.50	2.26	21.4	20.58%	1,870	90,700	3,500
1970	128.5	4.9	49.4	24.9	2.60	3.79	9.92	1.99	19.7	20.48%	1,560	82,400	3,122
1969	119.1	4.6	41.4	20.9	2.86	3.87	11.06	1.99	22.0	18.59%	1,340	89,000	3,447

SOURCE OF FIGURES FOR OTHER COMPANIES: 1973 FORTUNE DIRECTORY © TIME INC.
Figures may vary slightly due to rounding.
(1) Latest year ending figures.
(2) Return on ending Assets and ending Shareholder Equity.
(3) Last 10 years average annual compound growth rates.
(4) Average number of employees during year.
(5) Total sales for year ÷ average number of employees, to nearest $100.
(6) Total earnings after taxes ÷ average number of employees.

Audited Financial Statements

Introduction

Our 1970 Shareholder survey, published in the 1971 Annual Report, revealed that the combination of the 16 year review and the Audited Financial Statements were cited as "Best Liked Portion of the Report" by 34% of responding shareholders. Since that time, we and our Auditors have attempted to improve our reporting techniques in these sections through a combination of more pages, more facts, more pertinent disclosure, more communicative graphics, and less technical terminology.

With 10 pages of Financial Information, compared with 5 pages in 1971, plus the 16 year review on pages 48 through 50, this report represents an augmented effort to achieve better communication of financial information, via the techniques listed above. Specific new features this year are an important discussion of balance sheet management and other financial policies; a 10 year review of Sources of Funds, Uses of Funds, and Changes in Components of Working Capital; a Summary of Significant Accounting Policies; and generally expanded Notes to the Financial Statements.

We particularly want to advise you that all pertinent information in our 10-K report to the Securities and Exchange Commission is included in this Annual Report for 1973. We welcome your comments.

Report of Certified Public Accountants

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

We have examined the consolidated balance sheet of Lowe's Companies, Inc. and subsidiaries as of July 31, 1973 and 1972, 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 as of July 31, 1973 and 1972, and 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 26, 1973

Lowe's Financial Policies

Shown in Chart A is the sales growth trend at Lowe's, up an average 27.5% per year from 1969 through 1973. This growth rate, increasing in recent years (see page 48) indicates the marketplace acceptance of Lowe's merchandise and services; and the harmonious interrelationship of marketing policies, operations techniques and financial management.

Chart B delineates net earnings as a percentage of sales during the last 5 years. This measures the efficiency of the sales organization and the consistency of the rates shown indicate a well-balanced effort which remains instrumental in Lowe's Return on Assets. (Page 14).

Management's policy of earnings application is portrayed in Chart C. We are systematically increasing the cash dividend payout to our shareholders while we are consistently retaining the major portion to provide working capital for Lowe's continuing growth. These policies, which facilitate growth without dilution of shareholder equity, have received consistent support in your responses to our shareholder surveys. Therefore no stock offerings are being contemplated.

Let us now consider Balance Sheet (page 18) Policies and Management. Two major areas for financial policy, one for each half of the Balance Sheet, have guided Lowe's growth. First, for the Assets half, we concern ourselves with the structural balance of the various Asset components which contribute to our profits and growth. Charts A and B on page 18 portray the trends and proportions of each major component. Since Fixed Assets provide no direct return on investment, we maintain the major portion of our Assets in items that "turn" around sales, specifically Inventory and Accounts Receivable. From 1969 through 1973, Inventory and Receivables have been maintained in a close 69% to 70% range of total Assets. This heavy proportion in these two Assets, coupled with their high rates of turnover, has enabled us to maintain and increase our rate of total Asset Turnover (pages14 and 48) a major factor in our consistent Return on Shareholder Equity.

Inventory is the single most important Asset to a company like Lowe's. Our fundamental mission is the retail marketing of hard goods, not retail financing and not real estate investment. Inventory is where the profitability is, and it rightly maintains its major proportion of Assets. Lowe's Inventory Turnover rate — Total Sales divided by Average Inventory — was 7.7 times in 1973, up from 7.6 times in 1972.

Accounts Receivable occupy the next largest portion of total Assets and are an essential marketing service to our professional customers. Their average tenure on the ledgers varies seasonally between 40 and 55 days. Although we offer credit terms to our retail customers, these contracts are sold daily to finance companies on a non-recourse basis. These credit sales are therefore like cash sales to Lowe's — from the dual standpoints of risk and cash flow — and aren't carried in Receivables. Our Receivable Turnover rate in 1973 — Credit Sales divided by Average Receivables — was 6.3 times, up from 6.0 times in fiscal 1972. Fixed Assets have grown from 19% to 23% of total Assets from 1969 through 1973; however, other Assets have simultaneously declined from 12% to 7% of total Assets in the years shown.

Consolidated Statement of Current and Retained Earnings

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

Year Ended July 31, 1973 With Comparative Figures for 1972

CURRENT EARNINGS	1973	1972
Income:		
Net Sales	$326,846,108	$234,556,133
Other Income		160,207
Total Income	$326,846,108	$234,716,340
Costs and Expenses:		
Cost of Sales, Buying, Warehousing and Occupancy	$266,758,393	$189,001,525
Advertising, Selling, Administrative and General Expenses	26,680,888	20,393,995
Depreciation and Amortization (Note 2)	2,790,923	2,295,310
Contribution to Employees' Profit-Sharing Plan (Note 7)	2,695,178	2,667,382
Interest and Loan Expense	1,350,296	740,116
Provision for Bad Debts	1,177,354	1,475,444
Total Costs and Expenses	$301,453,032	$216,573,772
Pre-Tax Earnings	$ 25,393,076	$ 18,142,568
Provision for Income Taxes	12,665,144	9,021,981
Net Earnings	$ 12,727,932	$ 9,120,587
Earnings per Common Share (Note 1)	$ 1.50	$ 1.08
Average Shares Outstanding	8,474,124	8,434,380
RETAINED EARNINGS		
Balance at Beginning of Year	$ 33,913,091	$ 27,848,115
Additions:		
Net Earnings	$ 12,727,932	$ 9,120,587
Less Cash Dividends	1,017,268	946,119
Net Additions	$ 11,710,664	$ 8,174,468
Deductions:		
Stock Dividends (Note 5)	$ 259	$ 2,109,492
Balance at End of Year	$ 45,623,496	$ 33,913,091

SEE NOTES TO FINANCIAL STATEMENTS ON PAGES 22, 23, AND 24.

Lowe's Financial Policies

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

Let's discuss Equity first. Since it was 41% of total Liabilities and Equity on July 31, 1973, it was obviously financing 41% of total Assets. Although the Equity growth rate is 24.9% annually compounded for the last five years, the concurrent 28.9% annual growth of total Assets has caused Equity's portion to drop from 50% to 41% of the total. However, Equity must continue to finance the largest percentage of total Assets, and the Retained Earnings policy discussed earlier will implement this. Still, Equity cannot finance the total Assets required to maximize Lowe's operations and opportunities. Besides shareholders' money, other people's money is needed and obtained, some on a short term basis and some long term. Leverage, as used here, is computed by dividing total Assets by Shareholder Equity. Trends in Leverage are shown in the small table at right, and on line 19, pages 48 through 50.

Accounts Payable are historically the second largest portion of this half of the Balance Sheet and have been maintained in consistent percentage in recent years. Although Payables are a function of Inventory purchases, the remarkably similar levels in recent years of credit extended to Lowe's, called Payables, and credit extended by Lowe's, called Receivables, provide insight into the company's consistent management of these sources and uses of short term credit.

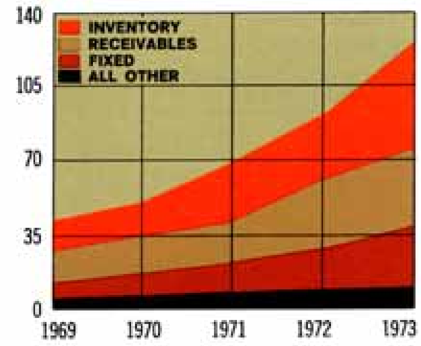
As Chart B shows, Long Term Debt has changed most in the last five years. This reflects a change in our store expansion policy. At the end of fiscal 1970, Lowe's owned half of our 64 stores and leased the other half. However, finding appropriate rental facilities which could include modern, larger sales floors, warehouse storage areas, and parking space necessary to adequately serve our customers became first difficult, then impossible. Since then, Lowe's Investment Corporation, a wholly-owned subsidiary, has bought and owns virtually all the real estate and buildings for our new Lowe's stores. This has affected our debt policy. Since non-turning Fixed Assets are a long term investment, they are financed with Long Term Debt, hence the growth shown. Lowe's has a long-time relationship with a major insurance company under which we finance land acquisition and new store construction over a 15-year period. All of Lowe's Long Term Debt is acquired for internal-use real estate for the physical facilities of our stores. As a general rule, all office and store equipment is bought for cash, with the exception of certain peripheral data processing components, which have a relatively rapid obsolescence factor.

The ratio derived by dividing Equity by Long Term Debt is an oft-used evaluatory measure for capital structure, and trends therein are shown in the small table at right and on line 36, pages 48 through 50.

Other Liabilities are various current obligations, including accrued income taxes, and were financing 15% of our Assets on July 31.

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

Assets: Trends & Composition A



LEVERAGE FACTOR	1.99	1.99	2.26	2.28	2.43

Balance Sheet Trends B

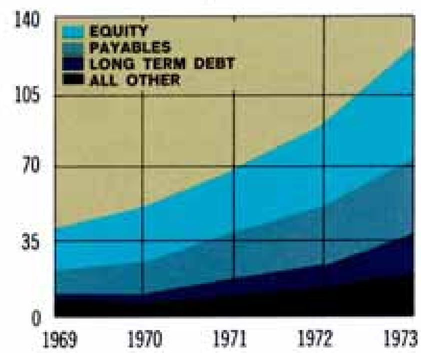
% of Total*

	1969	1970	1971	1972	1973
INVENTORY:	34%	39%	40%	39%	40%
RECEIVABLES:	35%	30%	30%	31%	30%
FIXED ASSETS:	19%	21%	20%	22%	23%
ALL OTHER:	12%	10%	10%	8%	7%
TOTALS:	100%	100%	100%	100%	100%
EQUITY:	50%	50%	44%	44%	41%
PAYABLES:	27%	31%	32%	31%	29%
DEBT:	5%	7%	11%	11%	15%
ALL OTHER:	18%	12%	13%	14%	15%
TOTALS:	100%	100%	100%	100%	100%

*Totals Rounded.

EQUITY-DEBT RATIO	5.7 to 1	6.6 to 1	3.9 to 1	3.7 to 1	2.8 to 1

Equity and Liabilities Trends & Composition C



Consolidated Balance Sheet

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

July 31, 1973 With Comparative Figures for July 31, 1972	1973	1972
ASSETS		
Current Assets:		
Cash	$ 7,858,746	$ 7,802,012
Accounts Receivable Less Allowance for Doubtful Accounts — 1973 — $1,901,168; 1972 — $1,687,675	37,603,195	27,439,621
Inventories at the Lower of Cost (First-In, First-Out) or Market	50,638,619	34,474,881
Prepaid Expenses and Other Current Assets	290,444	393,597
Total Current Assets	$ 96,391,004	$ 70,110,111
Property, Improvements and Equipment: (Notes 1, 2, and 3)		
At Cost Less Accumulated Depreciation — 1973 — $9,422,442; 1972 — $7,226,233	29,237,863	19,330,239
Other Assets:		
Unamortized Loan Expense	24,142	9,798
Sundry Assets at Cost	60,808	35,278
Total Assets	$125,713,817	$ 89,485,426
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable — Trade	$ 36,101,215	$ 27,683,888
Notes Payable	4,000,000	
Accrued Expenses	6,634,723	4,839,275
Provisions for Employees' Profit-Sharing	2,253,161	1,935,580
Current Maturities of Long-Term Debt	1,631,757	672,819
Provisions for Income Taxes (Notes 1 and 4)	5,072,915	5,085,720
Total Current Liabilities	$ 55,693,771	$ 40,217,282
Long-Term Debt: (Note 3)		
Notes Payable	18,237,721	10,013,826
Total Liabilities	$ 73,931,492	$ 50,231,108
Shareholders' Equity: (Notes 3 and 5)		
Common Stock — $.50 Par Value, Authorized 20,000,000 Shares; Issued and Outstanding 1973 — 8,487,313 Shares; 1972 — 8,454,705 Shares	$ 4,243,657	$ 4,227,353
Capital in Excess of Par Value	1,915,172	1,113,874
Retained Earnings	45,623,496	33,913,091
Total Shareholders' Equity	$ 51,782,325	$ 39,254,318
Total Liabilities and Shareholders' Equity	$125,713,817	$ 89,485,426

SEE NOTES TO FINANCIAL STATEMENTS ON PAGES 22, 23, and 24.

Consolidated Statement of Changes in Financial Position

LOWE'S COMPANIES, INC. AND SUBSIDIARIES

	Ten Year Totals		7-31-73		7-31-72		7-31-71	
AMOUNTS IN THOUSANDS; ( ) INDICATES A DECREASE	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Source of Funds:								
Net Earnings	$50,641	55.5	$12,728	48.2	$ 9,121	50.7	$ 6,548	50.5
Depreciation and Amortization	11,556	12.7	2,791	10.6	2,295	12.7	1,626	12.5
Total Funds from Operations	$62,197	68.2	$15,519	58.8	$11,416	63.4	$ 8,174	63.0
Life Insurance Proceeds	263	.3						
Sale of Common Stock Under Option Plan	1,809	2.0	473	1.8	532	3.0	63	.5
Disposals of Property and Equipment	1,444	1.6	152	.6	302	1.7	163	1.3
Additions to Long-Term Debt	25,038	27.3	9,907	37.5	5,714	31.7	4,511	34.8
Tax Benefit from Optionee Stock Dispositions	344	.4	344	1.3				
Other	164	.2			42	.2	60	.4
Total	$91,259	100.0	$26,395	100.0	$18,006	100.0	$12,971	100.0
Use of Funds:								
Retirement of Preferred Stock	$ 45	.1	$		$ 45	.2	$	
Dividends Paid	7,506	8.2	1,017	3.9	946	5.3	907	7.0
Reduction of Long-Term Debt	8,940	9.8	1,683	6.4	2,996	16.6	531	4.1
Additions to Property and Equipment	40,706	44.6	12,851	48.6	7,840	43.5	5,487	42.3
Other	220	.2	40	.2				
Total	$57,417	62.9	$15,591	59.1	$11,827	65.6	$ 6,925	53.4
Increase in Working Capital	$33,842	37.1	$10,804	40.9	$ 6,179	34.4	$ 6,046	46.6
Changes in Components of Working Capital:								
Current Assets:								
Cash	$ 5,121		$ 57		$ 1,498		$ 1,645	
Receivables	32,635		10,164		6,495		6,057	
Inventories	44,425		16,163		7,143		8,292	
Other Current Assets	230		(103)		62		38	
Total	$82,411		$26,281		$15,198		$16,032	
Current Liabilities:								
Accounts Payable and Other Accrued Liabilities	$39,180		$10,530		$ 8,033		$ 8,522	
Notes Payable	5,389		4,959		194		3	
Provision for Income Taxes	4,000		(12)		792		1,461	
Total	$48,569		$15,477		$ 9,019		$ 9,986	
Increase in Working Capital	$33,842		$10,804		$ 6,179		$ 6,046	

7-31-70		7-31-69		7-31-68		7-31-67		7-31-66		7-31-65		7-31-64	
Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
$4,870	61.6	$4,608	80.4	$3,592	70.8	$ 2,770	56.8	$2,790	57.5	$2,046	76.5	$1,568	56.5
1,221	15.4	951	16.6	827	16.3	794	16.2	549	11.3	305	11.4	197	7.1
$6,091	77.0	$5,559	97.0	$4,419	87.1	$ 3,564	73.0	$3,339	68.8	$2,351	87.9	$1,765	63.6
												263	9.5
		13	.2	226	4.5	56	1.2	129	2.7	255	9.5	62	2.2
133	1.7	159	2.8	25	.5	265	5.4	138	2.8	24	.9	83	3.0
1,620	20.5			401	7.9	995	20.4	1,245	25.7	45	1.7	600	21.7
61	.8					1							
$7,905	100.0	$5,731	100.0	$5,071	100.0	$ 4,881	100.0	$4,851	100.0	$2,675	100.0	$2,773	100.0
$		$		$		$		$		$		$	
844	10.7	780	13.6	756	14.9	661	13.5	616	12.7	519	19.4	460	16.6
498	6.3	1,242	21.7	493	9.7	596	12.2	494	10.2	284	10.6	123	4.4
3,825	48.4	2,482	43.3	1,668	32.9	1,730	35.4	1,913	39.4	1,780	66.5	1,130	40.8
		5	.1	108	2.1			36	.7	15	.6	16	.6
$5,167	65.4	$4,509	78.7	$3,025	59.6	$ 2,987	61.1	$3,059	63.0	$2,598	97.1	$1,729	62.4
$2,738	34.6	$1,222	21.3	$2,046	40.4	$ 1,894	38.9	$1,792	37.0	$ 77	2.9	$1,044	37.6
$ 18		$ 510		$ (685)		$ 1,789		$ (777)		$ 427		$ 639	
328		2,679		2,205		365		2,145		1,579		618	
4,857		1,708		2,943		(1,399)		2,776		1,819		123	
242		(82)		(10)		12		66		11		(6)	
$5,445		$4,815		$4,453		$ 767		$4,210		$3,836		$1,374	
$4,233		$1,961		$1,816		$ (1,233)		$1,867		$3,218		$ 233	
(979)		959		62		111		39		13		28	
(547)		673		529		(5)		512		528		69	
$2,707		$3,593		$2,407		$ (1,127)		$2,418		$3,759		$ 330	
$2,738		$1,222		$2,046		$ 1,894		$1,792		$ 77		$1,044	

Notes to Financial Statements

Note 1 — Summary of Accounting Policies:

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

PRINCIPLES OF CONSOLIDATION — The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly owned. There are 101 subsidiary corporations; 98 store companies, a lumber company, an advertising agency, and a real estate company. All material intercompany accounts and transactions have been eliminated. The practice of forming a new subsidiary for each new store market area has been consistently followed.

INVENTORIES — Inventories are stated at the lower of cost or market, cost being determined on the first-in, first-out basis.

PROPERTY AND EQUIPMENT — Land, buildings, and machinery and equipment are carried at cost. Major additions and improvements are capitalized and depreciated, while replacements, maintenance, and repairs which do not improve or extend the life of the respective assets are expensed currently. Upon disposal of fixed properties the cost and related accumulated depreciation are removed from the accounts. The gain or loss on an item traded is applied to the asset accounts, and that of items otherwise disposed of is reflected in income.

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

INCOME TAXES — The provision for income taxes is based on elements of income and expenses as reported in the statement of earnings. The company and its subsidiaries follow the practice of filing separate federal income tax returns using multiple surtax exemptions as provided for under the applicable provisions of the Internal Revenue Code. U. S. investment tax credits are applied to reduce the provisions for income taxes for the year in which the related properties are acquired.

EMPLOYEE RETIREMENT PLAN — A qualified noncontributory employee profit-sharing plan is available for all employees meeting minimum length of service requirements. The plan is a multi-employer plan and one trust serves the parent and the subsidiaries. The plan generally provides for contribution of fifteen per cent of annual compensation of participating employees and is funded currently.

STOCK OPTION PLANS — For a number of years qualified stock option plans have been in effect to enable management to offer stock options to key employees. The plans have been noncompensatory and have no effect on the earnings statement. The current year tax benefit flowing from the early disposition of stock by the optionees has been treated as an addition to capital in excess of par value. In prior years the benefit was treated as a reduction of current year income taxes.

START-UP EXPENSES — Expenses associated with the opening of new stores are charged to income as incurred and are so reflected in the consolidated statements.

ACCOUNTS RECEIVABLE — Substantially all of the trade receivables are on a thirty, sixty or ninety day basis. Service charges arising from certain classes of customer accounts are treated as a reduction of selling and administrative expense in the statement of earnings. Allowances for doubtful accounts are based on the experience encountered in the various locations. Installment receivables arising from consumer sales are sold without recourse to outside finance companies.

EARNINGS PER SHARE — Earnings per share of common stock are calculated in accordance with Accounting Principles Board Opinion No. 15. This calculation is based on the weighted average shares of common stock outstanding during each year. Common stock equivalents have no material dilutive effect on earnings per share.

Note 2 — Properties and Accumulated Depreciation:

The properties and accumulated depreciation are summarized below by major classes with estimated lives in years as follows: Buildings, 20 to 50; Equipment, 5 to 10; Transportation, 4 to 5; and Leasehold, useful life or term of lease.

	1973		1972	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 5,665,996	$	$ 2,851,402	$
Buildings	16,008,790	1,709,961	11,269,163	1,230,579
Equipment	4,444,034	2,171,008	3,251,841	1,705,097
Transportation	7,412,402	4,146,753	5,549,429	3,200,302
Leasehold	5,129,083	1,394,720	3,634,637	1,090,255
Totals	$38,660,305	$9,422,442	$26,556,472	$7,226,233

Note 3 — Long-Term Debt:

The long-term debt is summarized as follows:

	1973	1972
Life Insurance Company Loans:		
Unsecured 5¾% Note Maturing 1977	$ 280,000	$ 350,000
Secured Notes Maturing 1979 to 1988 — Interest Rates 5⅝% to 8⅝%	8,940,948	5,342,564
Bank Loans:		
Unsecured Notes Maturing 1975 to 1976 — Interest Rates 7% and 8%	7,380,000	3,000,000
Secured Notes Maturing 1974 to 1988 — Interest Rates Prime Plus a Maximum of 2%	3,059,738	1,792,868
Other Loans:		
Unsecured Notes Maturing 1974 to 1981 — Interest Rates 4% and 6%	58,792	51,213
Secured 8% Note Maturing 1974	150,000	150,000
Total	$19,869,478	$10,686,645
Less Current Maturities	1,631,757	672,819
Balance	$18,237,721	$10,013,826

The debt maturities for the next five years are: 1974, $1,631,757; 1975, $3,621,194; 1976, $5,512,638; 1977, $759,103 and 1978, $727,648.

The agreement covering the life insurance company loans places certain requirements as to the financial condition to be maintained, restricts other borrowing and limits the payment of dividends. After giving effect to the most restrictive provisions, $25,500,000 of the consolidated retained earnings are available for payment of dividends.

Deeds of trust covering retail store properties having a net book value of $10,088,000 have been provided to secure the life insurance company loans. Store properties having a net book value of $3,701,000 have been pledged as collateral for the other secured loans.

Note 4 — Income Taxes:

Lowe's Companies, Inc. and its subsidiaries follow the practice of filing separate federal income tax returns using multiple surtax exemptions. 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 combined federal income taxes by approximately $70,000 for each of the next two fiscal years.

The undistributed earnings of the subsidiary companies amounted to approximately $40,300,000 at July 31, 1973. Income tax provisions include an allowance for the tax on distributions of approximately $4,000,000 to the parent company, which is management's estimate of the maximum distribution in the foreseeable future. Should distribution exceed the estimate, applicable income taxes will be provided currently.

Investment tax credits reflected in income from the "flow-through" basis amounted to $172,225 in 1973 and $18,512 in 1972.

The income tax liability for the current year has been reduced by the tax benefit resulting from the early disposition of stock by the optionees under the stock option plan. The current year benefit of $344,016 was treated as an addition to capital in excess of par value. The 1972 benefit of $216,758 was treated as a reduction of the income tax expense for the year.

Note 5 — Shareholders' Capital Accounts:

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

	Common Stock	Capital in Excess of Par Value
Balance August 1, 1972	$4,227,353	$1,113,874
Exercise of Employee Stock Options	16,045	457,282
Tax Benefit from Early Disposition of Stock by Optionees		344,016
Issuance of Fractional Shares to Implement July 31, 1972 Stock Dividend	259	
Balance July 31, 1973	$4,243,657	$1,915,172

Note 6 — Employees' Stock Option Plan:

There is in effect the 1968 Qualified Employee Stock Option Plan approved by the shareholders on November 12, 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.

On September 2, 1969, options were 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 that date.

On May 18, 1973, additional options for 122,000 shares were granted at $51.50 per share or a total of $6,283,000. Shares forfeited from the initial grant on September 2, 1969 were included in the grant on May 18, 1973, in addition to options not previously granted.

The transactions that have taken place under the plan are shown below:

	5-18-73 Grant	9-2-69 Grant
Option Price per Share	$ 51.50	$ 14.75
Options Exercisable at July 31, 1973		138,896
Options Exercised Prior to July 31, 1972		40,366
Options Exercised Year Ended July 31, 1973		32,090
Shares Forfeited	480	37,056
Shares Outstanding July 31, 1973	121,520	204,664

The market value of the shares acquired under the options during the year varied from $46 to $69. All figures have been adjusted to give effect to stock dividends since the date the plan was adopted.

Note 7 — Employees' Profit-Sharing Plan Provisions:

Provisions for payments of the employee profit-sharing plan amounted to $2,695,178 for 1973 and $2,667,382 for 1972. The trust created by the plan holds approximately 28% of the outstanding shares and is the company's largest shareholder.

Note 8 — Long-Term Leases:

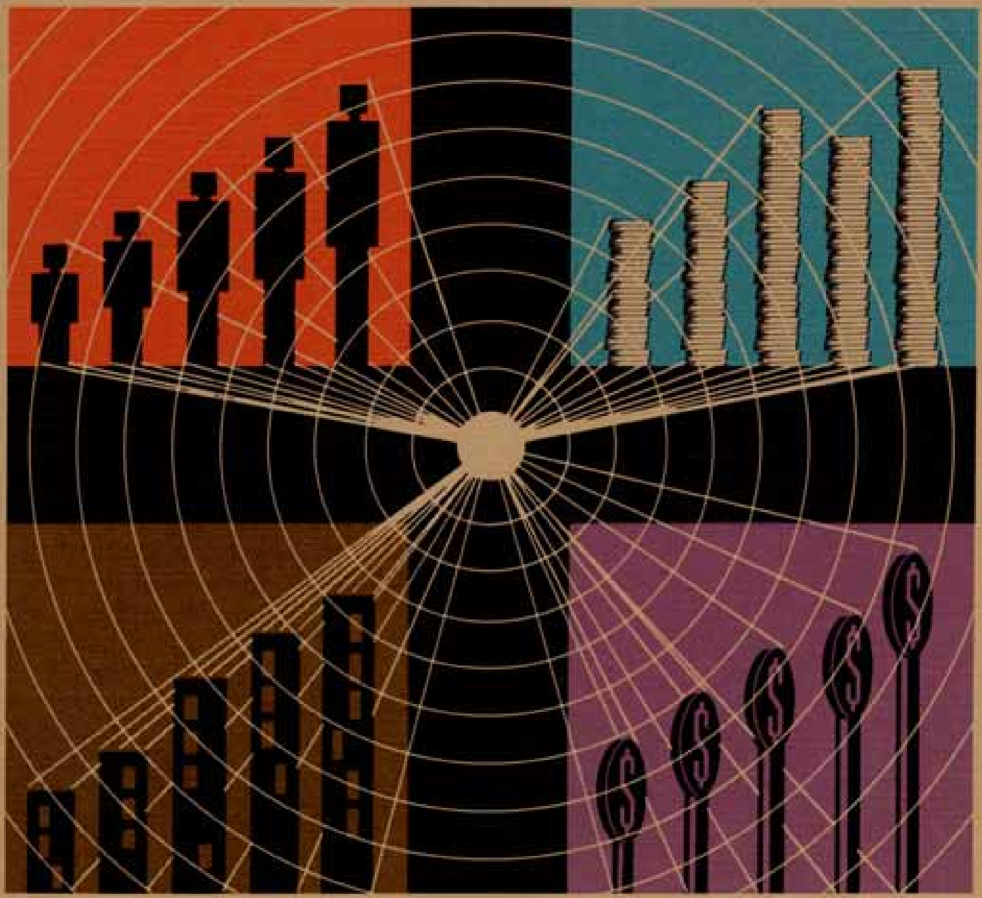
At July 31, 1973, there were sixty real estate leases with unexpired terms of more than one year. These leases cover forty-three store locations and related facilities, two of which are not in operation, and four office and auxiliary locations. Of the forty-three store locations under lease, sixteen represent land leases on which the company has erected substantially all of the improvements; the remaining twenty-seven stores lease both land and lessor improvements. Substantially all of the leases will expire during the next twenty years. In the normal course of business, however, the majority of the leases will be renewed at expiration, by company option, or replaced by other properties. The fifty-nine remaining store locations are owned by Lowe's real estate subsidiary.

Rent expense for the real estate leases amounted to $605,048 for 1973 and $539,203 for 1972. This includes the rent on the long-term leases plus amounts for new or existing leases with a duration of one year or less. The minimum annual rentals under the existing long-term leases and their respective expiration dates are summarized below:

Fiscal Periods:	Number of Leases Expiring	Aggregate Rentals During the Periods
1974		$ 615,287
1975	9	558,850
1976	5	474,742
1977	8	428,923
1978	12	308,127
1979 through 1983	20	847,049
1984 through 1988	2	369,316
1989 through 1993	2	320,389
1994 through 2003	2	167,500
	60	$4,090,183

In addition to the real estate leases, the company has equipment under lease with minimum annual rentals of $22,932 due for the years 1974 through 1977.

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 and Growth

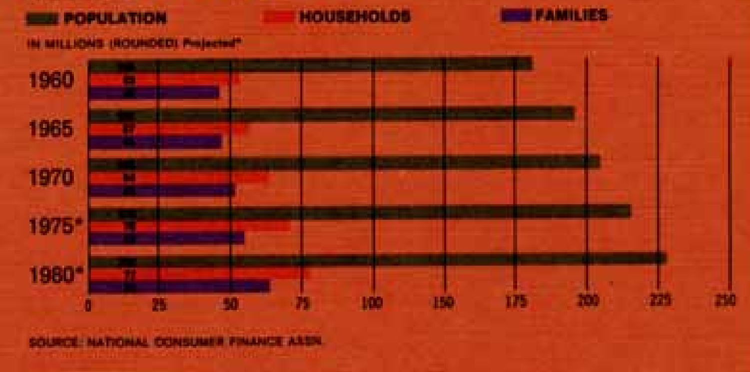
Population and Households: Chart 1 is a census and projection of population, households and families through 1980. Since our product line and merchandising efforts have primary orientation to homes, home builders, and homeowners, households are a principal measure of marketing opportunity. From 1960 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.

Growth Rates in Population: The average population trends shown for the nation vary significantly within the geographic regions and divisions of the United States. 97 of Lowe's 100 stores are located in the Southern region; 76 in the South Atlantic division, and 21 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. Here the population growth in the '60's exceeded the national average by 38%, and the growth rate in 1972 more than doubled the national average. This population boom means growth in buying income and retail sales also, with growth rates here only exceeded by the Mountain area.

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 1972 totals and presents a 1980 forecast. The South emerges as the most populous region of the country. Its 65,400,000 population is 31% of the nation's total. Its continued growth in retail sales has reached an annual total of $131.1 billion, edging ahead of the Midwest's total for the second time, and 30% of the nation's total. In effective buying income, the region accounts for $217 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 % projection for Lowe's primary marketing area is the highest in the nation.

Population 1

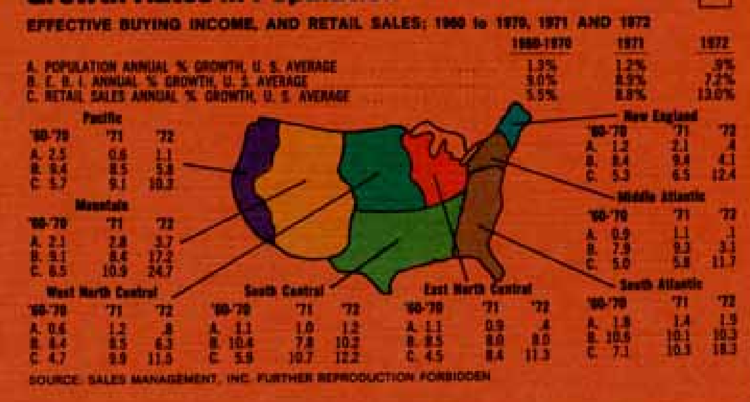
HOUSEHOLDS & FAMILIES, U.S. 1960-1980



SOURCE: NATIONAL CONSUMER FINANCE ASSN.

Growth Rates in Population 2

EFFECTIVE BUYING INCOME, AND RETAIL SALES; 1960 to 1970, 1971 AND 1972



SOURCE: SALES MANAGEMENT, INC. FURTHER REPRODUCTION FORBIDDEN

Regional Demographics, 1972 3

	Population (000,000)	Retail Sales (000,000,000)	EBI (000,000,000)	A 1980 Forecast: 1980 EBI (000,000,000)	A 1980 Forecast: Projected Growth %
New England	12.1	$ 26.3	$ 48.5	$ 64.6	33.2
Middle Atlantic	37.8	78.7	157.8	206.9	31.1
NORTHEAST	49.9	$105.0	$206.3	$ 271.5	31.6
South Atlantic	32.1	67.8	111.9	142.8	38.3
East South Central	13.2	23.7	39.2	50.0	27.6
West South Central	20.1	39.6	66.1	85.6	29.5
SOUTH	65.4	$131.1	$217.2	$ 278.4	28.2
Mountain	9.0	20.2	31.7	37.8	19.2
Pacific	27.4	61.8	112.9	153.2	35.7
WEST	36.4	$ 82.0	$144.6	$ 191.0	32.1
West North Central	16.8	37.2	60.5	77.7	28.4
East North Central	41.1	88.5	162.9	210.1	28.9
MIDWEST	57.9	$125.7	$223.4	$ 287.8	28.8
United States	209.4	$443.7	$791.5	$1,028.7	30.0

SOURCE: SALES MANAGEMENT, INC. FURTHER REPRODUCTION FORBIDDEN

Money and 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 bellwether measure passed the 1.1 trillion dollar mark during 1972 and in 1973 is climbing towards 1.3 trillion. Also shown is the concurrent growth pattern in disposable personal income. Its total, $797 billion in 1972, was 69% 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 housing, but too high a savings rate dampens retail purchases of durables. At present, the net savings-spending balance is favorable, except that higher interest rates elsewhere are diverting funds from Savings and Loans. Personal consumption expenditures represent the total spending for durable goods, non-durable goods and services, and in 1972 were $727 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 increased again in 1971 and 1972. The 1973 figures represent a 45.5% increase over the 1970 rate, to a going rate of $132.8 billion. Spending for Services increased 104% in the decade, surpassed non-durable goods in dollar total in 1971 and has continued to grow during 1972 and 1973, 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 moderated in 1972 and 1973.

Consumer Spending: Chart 6 presents a slightly different and more detailed division of the components of $615 billion of 1970's 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.

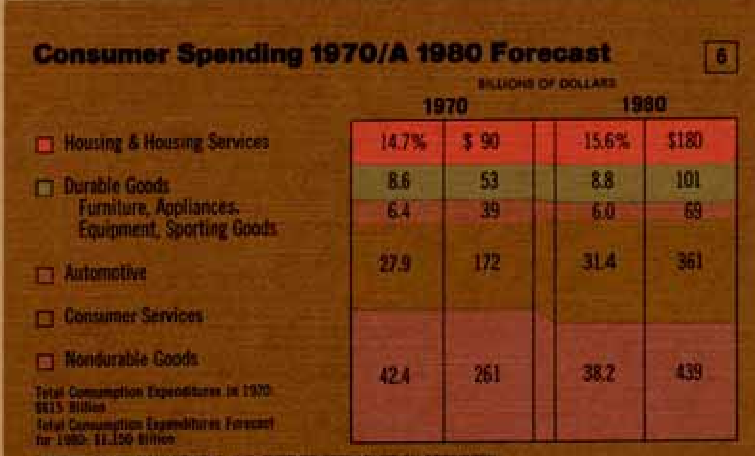
Personal Income Disposition Trends 5

BILLIONS OF DOLLARS

	1960	% of Total	1970	% of Total	1971	% of Total	1972	% of Total	1973*	% of Total	'70-'73 Change
Non Durable Goods	$151.3	44.2	$263.8	39.1	$278.7	38.3	$299.9	38.6	$330.3	39.0	+25.2%
Durable Goods	45.3	13.2	91.3	13.6	103.6	14.2	117.4	15.1	132.8	15.7	+45.5%
Services	128.7	37.6	262.6	39.0	284.9	39.2	309.2	39.8	332.6	39.3	+26.7%
Total Personal Consumption Expenditures	$325.3	95.0	$617.7	91.7	$667.2	91.7	$726.5	93.6	$795.7	94.0	+28.8%
Savings	17.0	5.0	56.2	8.3	60.2	8.3	49.7	6.4	51.0	6.0	−9.3%
Total	$342.3	100.0	$673.9	100.0	$727.4	100.0	$776.2	100.0	$846.7	100.0	+25.6%

* Seasonally adjusted annual rate for quarter ending 6/30/73

SOURCE: ECONOMIC INDICATORS



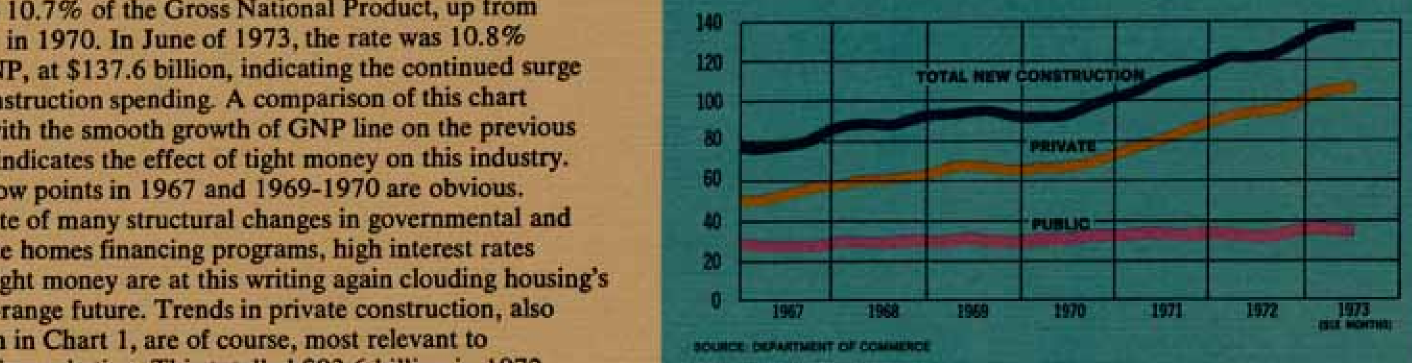
Construction and Housing

Construction Spending: National trends in construction spending are shown in Chart 7. During 1971, the total spending rate passed the $123 billion level, back again to about 10.7% of the Gross National Product, up from 9.6% in 1970. In June of 1973, the rate was 10.8% of GNP, at $137.6 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 low points in 1967 and 1969-1970 are obvious. In spite of many structural changes in governmental and private homes financing programs, high interest rates and tight money are at this writing again clouding housing's short-range future. Trends in private construction, also shown in Chart 1, are of course, most relevant to Lowe's marketing. This totalled $93.6 billion in 1972, and the June, 1973 going rate was $105.1 billion.

Construction Spending Components: Chart 8 presents totals and trends of the major components of construction spending from 1967 through 1972, the 5 year annual compound growth rates of each, and the changes through June, 1973. 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 1967 and 1970 from the previous year. Its percentage of total construction spending has varied substantially, but its turn-around in 1971 through 1973 gives it the highest growth rates in the chart, and the largest percentage of the total. This will decline in the short-range, but the long-range trend is strong.

Cost and Price Trends: The changing levels and trends of construction costs and prices are portrayed in Chart 9, along with price indexes for all consumer goods, food, and all durable goods, for comparative purposes. The consumer price index continues upward and at perhaps a slightly higher rate of increase. Durable goods prices also are continuing to rise, spurred by the increased demand discussed in Chart 5. The well-publicized food price rise is shown. Construction materials in the aggregate have passed the Consumer Price Index through six months in 1973. Although lumber, plywood, and others have high recent 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 prevalent in the nation in recent years.

Construction Spending Trends 7



Construction Spending Components 8

BILLIONS OF DOLLARS

	1967	1970	1971	1972	5 Year C.G.R.†	1973*	'72-'73 Change
A. Government	$25.5	$28.1	$ 29.9	$ 30.2	3.4%	$ 32.4	+ 7%
B. New Housing	19.0	24.3	35.1	44.7	18.7%	49.5	+11%
C. Remodeling**	6.6	7.6	8.2	9.5	7.6%	10.5	+11%
D. Commercial & Industrial	13.2	16.3	17.0	18.1	6.5%	21.6	+19%
E. Other	13.2	17.9	19.1	21.3	10.0%	23.6	+11%
Total	$77.5	$94.2	$109.3	$123.8	9.8%	$137.6	+11%

**Understated, apparently due to statistic-gathering method used. See table, page 31.
*Annual rate, June 1973 †Compound growth rate
SOURCE: ECONOMIC INDICATORS

Trends, Construction Costs and Prices 9

INDEX: 1967 = 100

	Consumer Price Index	All Durable Goods	Food	All Construction Materials	Southern Pine Lumber	Plywood
1967	100.0	100.0	100.0	100.0	100.0	100.0
1968	104.2	103.1	103.6	105.6	113.7	115.7
1969	109.8	107.0	108.9	111.9	126.0	122.5
1970	116.3	111.8	114.9	112.5	114.5	108.5
1971	121.3	116.5	118.4	119.5	133.8	114.7
1972	125.3	118.9	123.5	126.6	151.5	130.7
**1973	130.1	120.9	134.7	136.3	175.9	162.6

	Millwork	Gypsum Wallboard	Asphalt Roofing	Plumbing	Brick	Hardware
1967	100.0	100.0	100.0	100.0	100.0	100.0
1968	105.8	101.3	104.0	103.3	103.4	101.7
1969	117.8	99.2	103.4	107.3	107.8	105.4
1970	116.0	93.4	101.8	112.5	112.2	112.9
1971	120.7	99.7	128.5	116.4	117.4	117.7
1972	128.4	107.8	133.4	119.7	122.1	120.4
**1973	139.2	112.3	136.1	123.8	130.0	123.0

**1973, 6 month Average Indexes.
SOURCES: CONSTRUCTION REVIEW AND ECONOMIC INDICATORS

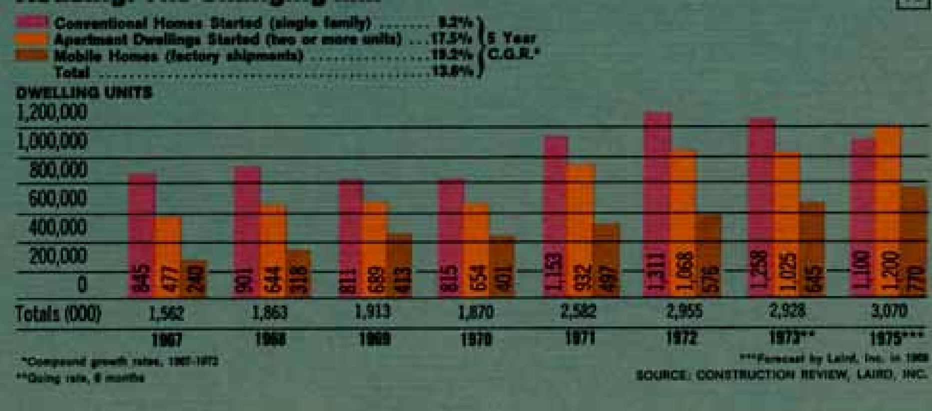
The Housing Mix: Chart 10 presents an interesting picture of growth. When Washington suggested 2,400,000 new housing units per year for 10 years, many were skeptical, citing potential shortages of financing, demand, labor, and organization. The Bureau of Domestic Commerce forecast a 1975 rate of 2,525,000 starts, including modular homes. Both 1971 and 1972 totals surpassed both estimates. Current tight money conditions will slow both single family and apartment starts, short range, but not mobile homes. When interest rates moderate, we expect 3,000,000 totals.

Regional Housing Starts: 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 a rather low long-range growth rate, although activity spurted in 1972. The North Central share of total has declined from about 26% to about 19%. The West, starting from the lowest base in 1967, passed the North East in 1968, and the North Central in 1970, and continued growth is forecast. The South is much the largest region, with the second highest long-term growth rate in housing starts.

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.

Housing: The Changing Mix

10



Regional Housing Starts

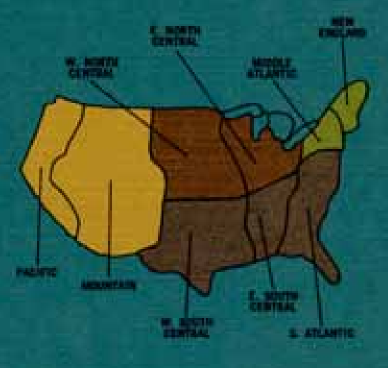
11

(LESS MOBILE HOMES)

	North East		North Central		West		South		Total
	(000)	% of Total	(000)	% of Total	(000)	% of Total	(000)	% of Total	(000)
1967	224	16.9	344	26.0	223	16.9	532	40.2	1,322
1968	236	15.2	377	24.4	298	19.3	634	41.0	1,546
1969	213	14.2	357	23.8	327	21.8	603	40.2	1,500
1970	224	15.2	301	20.5	315	21.4	629	42.8	1,469
1971	271	13.0	440	21.1	490	23.5	884	42.4	2,085
1972	334	14.0	445	18.7	532	22.4	1,068	44.9	2,379
CGR*	8.3%		5.3%		19.0%		15.0%		12.5%
1973**	—2%		+9%		—12%		—5%		—4%

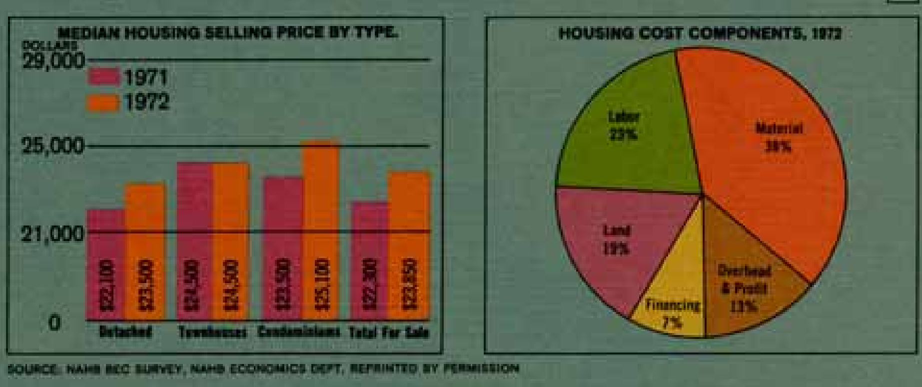
*Compound growth rates 1967-1972
**Rate of increase, 8 months 1973 vs 8 months 1972

SOURCE: HOUSING AND URBAN DEVELOPMENT TRENDS — ROUNDED FIGURES



Housing Prices and Costs

12



SOURCE: NAHB BEC SURVEY, NAHB ECONOMICS DEPT. REPRINTED BY PERMISSION

Retailing and 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 1972 with latest rate changes through June, 1973. This is a giant industry whose 1972 totals were equivalent to 39% of G.N.P., and 62% 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 18% increase in 1972 and the 23% increase in 1973 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 1971 and 1972 sales volume, 1972 and 1973 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 $27,059,000,000 in 1972, and the 1967 census indicated about 81,000 stores shared this volume.

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

United States Retail Store Sales 13

MILLIONS OF DOLLARS

	1965	1968	1972	CGR*	1973 % Change**
Food Group	$ 64,016	$ 72,881	$ 94,989	5.8%	+10%
Eating & Drinking Places	20,201	25,285	33,898	7.7%	+11%
General Merchandise	42,299	54,493	74,855	8.5%	+13%
Apparel Group	15,765	19,265	21,943	4.8%	+12%
Furniture and Appliance Group	13,352	16,540	21,296	6.9%	+15%
Automotive Group	56,884	65,261	88,618	6.5%	+20%
Gasoline Stations	20,611	24,526	31,056	6.0%	+12%
Drug & Proprietary	9,186	11,458	14,508	6.8%	+ 7%
Liquor Stores	5,674	6,969	9,212	7.2%	+ 3%
Lumber, Building Materials, Hardware & Farm Equipment Group	17,101	19,129	26,692	6.6%	+19%
Durable Goods	94,186	110,245	149,597	6.8%	+19%
Nondurable Goods	189,942	229,079	298,577	6.7%	+12%
United States — Total	$284,128	$339,324	$448,174	6.7%	+14%

*Compound growth rates 1965-1972
**Percent increase 8 months 1973 versus 8 months 1972

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

Selected Retail Group Store Sales By Region 14

MILLIONS OF DOLLARS

North East Region	1968	1972	CGR*	1972 % Change	1973 % Change**
All Stores	$ 84,105	$104,806	5.7%	+ 5%	+10%
All Durables	n/a	27,743	n/a	+ 8%	+18%
GAF Group	24,553	29,518	4.7%	+ 5%	+ 7%
LBHFE Group	3,230	4,139	6.4%	+11%	+23%

West Region	1968	1972	CGR*	1972 % Change	1973 % Change**
All Stores	$ 61,083	$ 82,898	7.5%	+13%	+14%
All Durables	n/a	24,091	n/a	+18%	+18%
GAF Group	15,171	20,823	8.2%	+14%	+15%
LBHFE Group	3,050	4,795	12.0%	+18%	n/a

North Central Region	1968	1972	CGR*	1972 % Change	1973 % Change**
All Stores	$ 99,295	$127,571	6.5%	+ 9%	+14%
All Durables	n/a	38,852	n/a	+11%	+18%
GAF Group	26,185	33,582	6.4%	+10%	+14%
LBHFE Group	7,708	9,570	5.6%	+15%	+14%

South Region	1968	1972	CGR*	1972 % Change	1973 % Change**
All Stores	$ 98,841	$132,899	7.7%	+12%	+17%
All Durables	n/a	41,128	n/a	+17%	+21%
GAF Group	24,380	34,171	8.8%	+12%	+16%
LBHFE Group	5,141	8,188	12.3%	+18%	+23%

*Compound growth rates 1968-1972
**Percent increase 8 months 1973 versus 8 months 1972
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.

Pertinent Retail Group Store Sales & Census 15

SALES VOLUME, MILLIONS OF DOLLARS

	1971	1972	1972 % Change	1973 % Change	1967 Census # Of Stores
1. Lumber, Building Material, Hardware, Farm Equipment Group	$23,032	$26,692	+16%	+19%	69,015
A. Lumber Yards, Building Material Dealers, Paint, Plumbing, and Electrical Stores	13,733	15,970	+16%	+20%	36,334
B. Hardware Stores	3,645	4,091	+12%	+17%	19,339
C. Farm Equipment and Other	5,654	6,631	+17%	+20%	13,342
2. Furniture and Appliance Group	$18,560	$21,296	+15%	+15%	71,264
A. Furniture, Home Furnishings Stores	11,004	12,552	+14%	+15%	39,860
B. Household Appliance, T.V., Radio Stores	6,221	6,998	+12%	+15%	25,384
C. Other	1,335	1,746	+31%	+15%	6,020
Totals: 1A, 1B, 2B	$23,599	$27,059	+15%	+18%	81,057

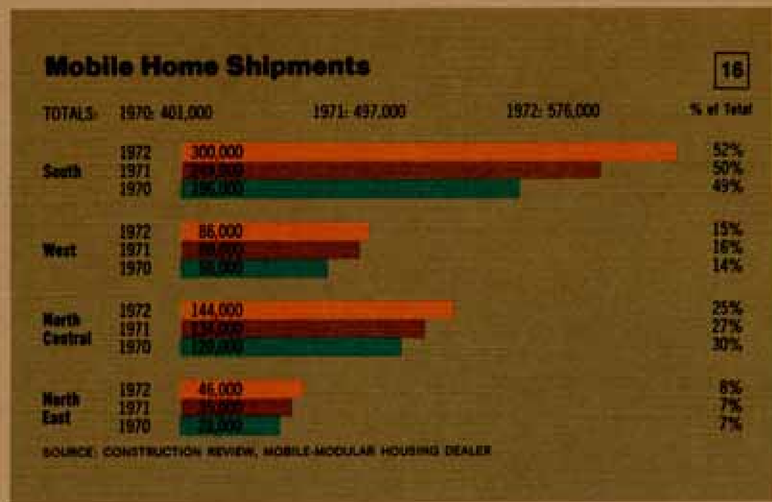
*Percent increase 8 months 1973 versus 8 months 1972
SOURCE: RETAIL TRADE, U.S. DEPARTMENT OF COMMERCE/BUREAU OF THE CENSUS

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 640,000 in 1973. At an average selling price of $7,000, this is a $4.5 billion business at retail. Manufacturers have concentrated on interior style, design, furnishings, 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. These homes are America's consumer accepted factory housing.

Remodeling Expenditures: Chart 17 portrays another market dimension and opportunity for Lowe's — the growing aftermarket for additions, alterations and repairs to existing homes by the owners. Total expenditures reported for 1972 represent a 50% increase over the 1967 total for this important market.

Single family, owner occupied residences accounted for $11.1 billion, about 64%; apartment expenditures were $5.4 billion. Of the $11.1 billion, $7.5 billion represented payments to a contractor for labor and material, with the balance of $3.6 billion being payments for materials purchased by the owners. Lowe's competes vigorously and successfully in this $3.6 billion market. During 1973 we initiated action to compete in the labor-intensive $7.5 billion portion as well. Lowe's "Improver" program now offers installation service for many products.

Building Material Dealers: Table 18 is excerpted from *Building 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, 5 SOUTH WABASH, CHICAGO, ILLINOIS [illegible]

Lowe's, How We Grow

The Lowe's Team: Putting it all together is what Lowe's is all about. What you see in the picture at right are the members of the Lowe's team who "put it all together" to build the Robert Heges' new home, a Lowe's Homestead Snug Harbor design, built in Wilkesboro, North Carolina.

Where We Begin: Lowe's employees are the cornerstone of the team required to build a home like the Heges'. It takes salesmen like Gale Nichols, working closely with and for our customers, to sell the materials. It takes warehouse and delivery men like Bill Caudill to properly load and safely deliver the goods to the job site. And close supervision, leadership and guidance is provided from the Central Office by our regional staffs, men like Albert E. Plemmons, Vice President, Region 2.

Why Lowe's: There are many companies competing with Lowe's. What is it then, that caused over 4,717,000 people to be Lowe's customers in fiscal 1973? We believe it's the motivation of Lowe's people that separates Lowe's from our competitors. Store Manager B. J. Bare says, "A real team spirit, with everyone pulling his own load and also pulling together, really does exist at Lowe's. This spirit and job pride thrives," Bare continues, "because every employee knows his efforts will be appreciated and his career opportunities will flourish."

Materials and Services: Today's customers demand quality products and a myriad of services to satisfy their particular needs. Lowe's is able to meet these product needs because of fine, innovative suppliers like the Abitibi Corporation, represented here by salesman Tom Roe. Lowe's own innovative efforts to provide better service for our customers are represented by John Acree, who is responsible for operations research and development, including Lowe's new telecommunications and sales processing systems; and by Marvin Robinson, who is the Marketing Manager for Lowe's rapidly growing Homestead housing program.

Money: A continuing supply of money and credit is essential to the home building industry. We work closely with banking institutions and savings and loans to help our customers receive the financing necessary to build a home or make other major purchases involving Lowe's products. Representing the financial part of the Lowe's team are Mr. Bill Young, Executive Vice President of the Northwestern Bank, and Mr. Raymond Blevins, a member of the Board of Directors of the North Wilkesboro Savings and Loan Association, North Wilkesboro, N.C.

The Catalyst: Customers energize the various Lowe's networks and put the members of the Lowe's team into action . . . customers, both professional buyers and retail consumers who help spread the word that Lowe's can put it all together. Representing Lowe's professional customers is Mr. Morris Billings, the contractor whose Prestige Homes firm built the Heges' home. Billings began building a Homestead because of "the pre-determined materials cost, the good terms and prices, and the adaptability of the styling." And our retail customers are represented par excellence by the Heges, who were looking for a new home and became interested in the house when they learned it was a Lowe's Homestead. "We were familiar with Lowe's," Hege says, "and bought the home almost immediately. The Lowe's salesmen were quite knowledgeable and helpful when we were deciding on the finishing touches. This was a pleasant surprise, since sales people in many retail establishments are just ordertakers and aren't well versed about their product line. And, of course, the whole family has been quite happy living in such a well designed and well built home — this 'Snug Harbor'."

Shareholders: The Lowe's team works because of, and for shareholders, like the Bill Caseys. Our shareholders' investment in Lowe's enables the Lowe's team to continue Lowe's growth.

Pictured clockwise from the lower left center of the picture are representatives of the Lowe's team — retail customers, the financial community, Lowe's supplier and services network, shareholders, store sales personnel, and professional builders — discussed on pages 32-45.

"The Lowe's Team– putting it all together."

"Dynamic spirit of our people, ***highly motivated*** *with the desire to succeed, and to excel."*

Lowe's organization, including credit management, the accounting department, Vice Presidents, and the personnel department all contribute to the efficient operation of Lowe's field operations.

Field Organization: Lowe's regional organization continues to be a positive dimension to management as it prepares to enter its fourth year. Our Regional Vice Presidents have enabled us to maintain the close communication and contact between the General Office and our stores that has characterized Lowe's over the years during a period of continuing growth in the size of Lowe's Companies, Inc. Our growth from 86 to 100 stores caused us to establish a fourth region this year, led by J. Max Garrett, Jr. The work of Garrett and our three other Regional Vice Presidents, Dwight E. Pardue, Albert E. Plemmons, and J. Ross Burgess, Jr. and their capable staffs of supervisory personnel 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 to develop our personnel.

Store Managers: Each of our 100 store managers 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; and thirdly, to train and develop his people for additional responsibility with Lowe's. He knows 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 so as to foster the store manager's personal development and to enable him to operate efficiently within his store's unique marketing area. Of the present 100 managers, approximately 90 began on Lowe's sales floor, while the remainder started their Lowe's careers in other functional areas of the company.

Store Sales Organization: Each store has an Assistant Manager who directs the 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. Other trained specialists who provide leadership to our sales force and service to our customers in their particular areas are our Appliance and Home Entertainment, Salesettes, Paint, and Homestead Sales Managers.

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, since they are responsible for receiving millions of dollars worth of merchandise, safely storing and securing it, and delivering it to Lowe's customers. And they must provide a high level of customer service, too, all on a dollar-conscious budget. The low level of inventory shortages and damage at Lowe's testifies to the fine job being done by this group of people.

General Office Organization: Lowe's growth requires continuing evolution and development of our management structure. During the past year, the Board of Directors established these new Vice Presidencies: Purchasing, Management Development, Contractor Sales, Retail Sales, and three in Marketing. The Board also named a new Treasurer and a Controller. These men are pictured at left and named on page 47. Together with our Regional Vice Presidents, these are the next generation Lowe's management team.

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 Promotion.

Tactical Staff: This group, formed in 1969, provides general administrative liaison between General Office departments, the Office of the President, the Regional Vice Presidents and their staffs, and the stores. At this group's weekly meetings, each person is made aware of new requirements being developed by the plans of other departments. The total implications of these plans are then discussed, and operational procedures and policies are then formulated. This group is thus a vital element in Lowe's ability to retain close control over operations during the company's rapid expansion.

Personnel Philosophy: Staffing a rapidly-expanding company like Lowe's keeps new Personnel Director Ed Spears busy. "Our expansion requires many new people to fill all the available positions, and fortunately our reputation attracts the necessary good people," Spears says. 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 is a characteristic of Lowe's people.

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.

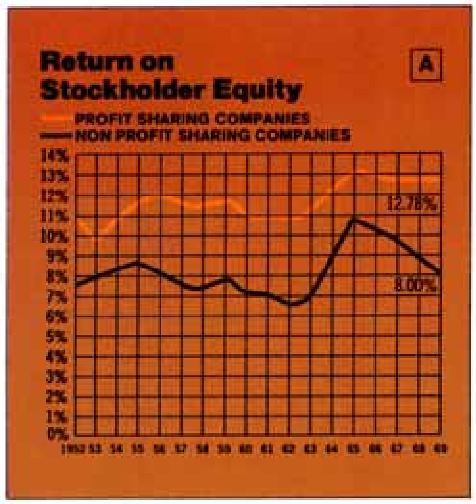
We prefer to employ young aggressive people who show qualities of enthusiasm and an attitude that will assist in the growth and prosperity of Lowe's. Our policy is to promote from within, and our people know that they have an opportunity to grow professionally and financially and that they will not be overlooked when Lowe's growth creates new job opportunities, as it does.

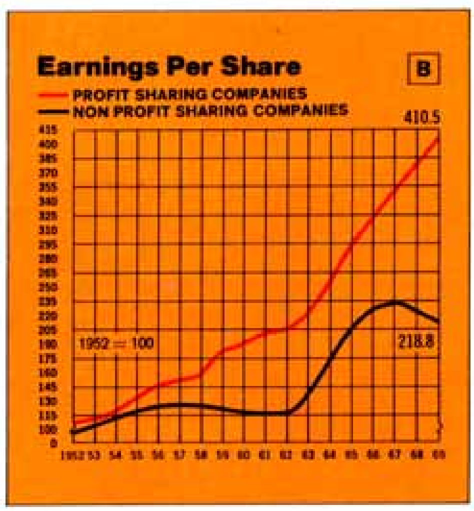
Money Still No. 1: Money, and the opportunity to earn a lot more, is the foundation of our motivational program. We pay all employees by the week, salesmen are paid weekly commissions, and for superior performance, we pay a quarterly bonus. For achieving company goals, budgets, and objectives, annual 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 goals and 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, merchandising managers, warehouse managers — giving them additional medium range incentive to increase the profitability of Lowe's.

Profit Sharing: The long range incentive par excellence at Lowe's is the Profit Sharing Plan and Trust. Lowe's uniquely successful plan was announced in 1957, and acquired Lowe's stock 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. This was done in 1961 on behalf of all members of the Trust.

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 financial hardships of Lowe's employees.





Shareholder Interests: A 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 organization 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. The study conclusion: "On all measures of significance to stockholders, the profit sharing group outperformed the non-profit sharing group by substantial margins."

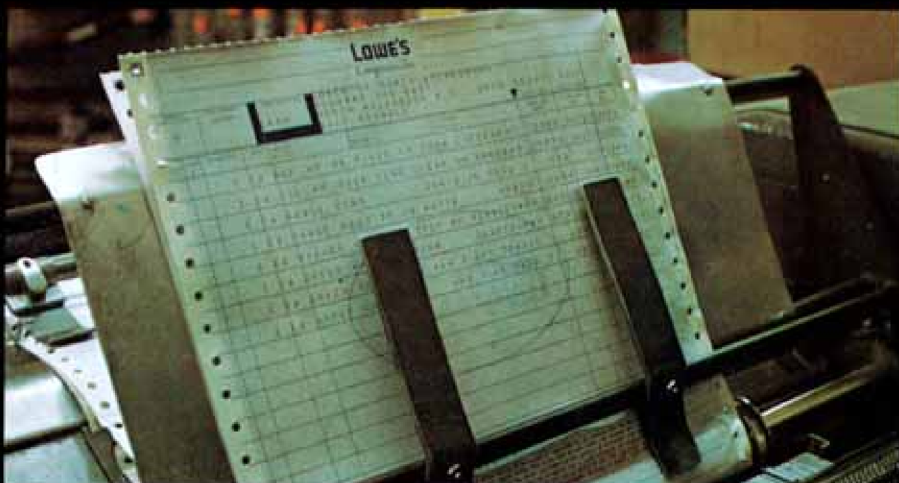
These three charts, from the study, show the difference. Profit sharing people produce a higher return on investment. This results in higher earnings per share, and also in higher market value. Lowe's performance corroborates this. Lowe's sales and profit per employee are significantly greater than that of any of the companies covered in the study. (See the Performance Measurements and Comparisons chart on page 14 for amplified treatment of Lowe's sales and profit per employee.) 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.

Profit Sharing Book: A new 16-page "Lowe's Profit Sharing" book was produced this year to explain the "why" of profit sharing and many details of the plan, profit sharing's future at Lowe's, and to relate experiences of several former employees. This type of high-caliber communication is designed to insure that Lowe's employees (especially the many new ones) fully understand profit sharing, and its value to them and their company.

*"Incentives lend **zest and enthusiasm** to the accomplishment of corporate objectives."*

Motivation at Lowe's takes many forms . . . profit sharing, trips, money and the annual Hootenanny Sales Meeting.

"A network of suppliers has been evolved –
a massive resource
and major asset to Lowe's."



A highly refined network of suppliers, transportation, and services is necessary to adequately serve today's sophisticated consumers and professional buyers.

Introduction: At Lowe's we manufacture nothing. Thus 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 our company.

Lowe's Supplier Network: The roster of our manufacturing sources reads like an excerpt from Fortune's top 500 list: Abitibi, Alcoa, AMF, Armstrong Cork, Bethlehem Steel, Black & Decker, Boise-Cascade, Borg-Warner, Celotex, Certainteed, Fedders, Fisher, GAF, GE, Georgia-Pacific, Hotpoint, International Paper, Masonite, McGraw-Edison, National Gypsum, Owens-Corning, RCA, Skil, U.S. Gypsum, U.S. Plywood, Weyerhaeuser, Whirlpool, 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, Salem Carpets, Arrow Industries, 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: 1973 winners were
Best All Around: Modern Maid
Best Field Representation:
National Gypsum
Purchasing Department Award:
Revco, Inc.
Most Promising Newcomer:
Salem Carpets

1973 Perspective: With increased demands from the building boom, intensified international demand and a high level of retail spending, many of our basic products were in short supply, with extended delivery periods. However, our long time practice of treating suppliers as business partners proved invaluable. It was extremely gratifying to have our suppliers co-operate with us to the great degree that they did. Since many of our items remain in tight supply, our buyers will continue to foster the personal relationships with our manufacturers and distributors that have been so beneficial to the achievement of Lowe's sales goals.

Transportation: From the massive weight and bulk of the commodity products that constitute a large portion of our sales volume to the smaller packaged products, a flexible, efficient, and dependable transportation network is vital to serve our 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.

Telephone: The phone also thrives at Lowe's. Besides its obvious general usages, it is 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.

Computers: Lowe's data processing system has been acclaimed as the most sophisticated in use by a mass merchandiser since its inception in 1956. During the mid-60's, a significant advance occurred with the installation of IBM 402 and 526 accounting/billing machines to calculate and print each sales ticket and provide other unique marketing services.

The installation of an IBM 370 computer last February has allowed us to utilize our IBM 360 computer for data preparation and co-ordination of input systems. The 370 is now our main-frame computer, and the 360 handles secondary computing functions. Last year's addition of video screen terminals in various control areas of the Central Office has provided all departments with direct access for data entry into, and recall from, the 360.

Telecommunications: Lowe's telecommunications system — a teleswitcher computer controlling a teleprinter computer in each store, via the Bell System's DDD network — provides virtually instantaneous communication between Lowe's General Office and all Lowe's stores. Through a continuous sequential poll, the main computer automatically receives data from, and transmits data to, each store's unattended remote console. This system's combination of speed and printed copy for accuracy and reference is proving to be a major asset for Lowe's.

Sales Processing: During fiscal 1974 we will begin introduction of a new sales processing system, which can replace our old 402 machines and many old procedures. The system consists of visual display sales terminals for salesmen; an in-store mini-computer; a printer for production of invoices, statements and reports; and high speed data transmission equipment.

The display terminal on the salesman's desk will enable him to give the customer complete sales information on any inventoried item. When a sale is made, the system instantaneously totals and prints a complete sales invoice, updates accounts receivable, produces inventory control records, sales information records, and salesman performance records.

General: A network of sources of money and credit is necessary for Lowe's business to function and to grow. A major element of this network is the availability of permanent financing for residential construction. This has been severely depressed twice in the last seven years in well-publicized "credit crunches," due largely to anti-inflationary monetary policies of the Federal Reserve Board. Actions and structural changes in housing financing by governmental agencies including HUD, FHA, VA, GNMA, and others had suggested to us that the volatile pattern of housing due to financial problems would be less severe in the future. However, another slowdown of the growth in America's money supply by the Fed is currently being accompanied by historically-high interest rates and a reversal of savings and loan money flows. Therefore, another slowdown of housing from its historic highs is upon us. The question is its duration. There is some evidence (and a lot of hope) that less inflationary governmental fiscal policy and results will allow monetary policy to ease again in a few months.

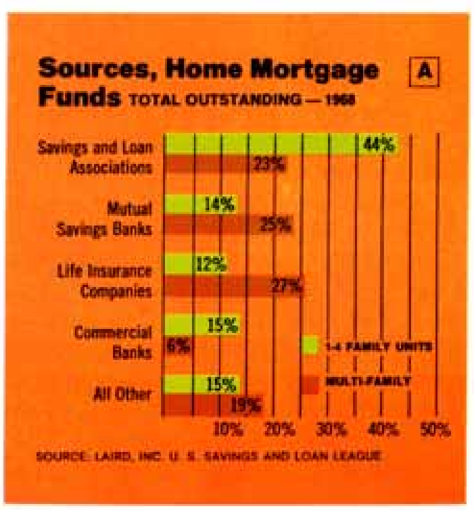
Savings and Loans: Although policies and programs of the government affect housing directly, the most important factor in home mortgage financing has been, and will remain, America's Savings and Loan institutions. Their traditional major role as a source for long-term home mortgage financing is shown in Table A.

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 after the easing of 1970's restrictive monetary policies. This extraordinarily high funds flow continued through 1972, and through June of 1973. Savings deposits were at very favorable levels. However, this began to turn around sharply in July and August. Table C presents loan commitment trends of the Savings and Loan associations in the Fourth Federal District. 73 of our stores are located in the areas served by the Fourth District, so these figures and trends are quite pertinent to Lowe's operations. Table C clearly indicates the dramatic increases of loan commitments in 1971 and early 1972 and a simultaneous slowing of the growth rate and maintenance of high dollar commitment levels through our 1973 fiscal year end.

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 of fund augmentation.

Retail Financing: To finance our growing sales to retail customers, 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 $135 billion during this last year. A variety of non-recourse credit plans are offered to our customers.

Lowe's "Pro" Customer Financing: We provide interim credit to our professional customers. About 63% of sales were made to contractors, builders, and commercial accounts on credit terms.



Savings Flow Trends

B

SELECTED SAVINGS INSTITUTIONS
BILLIONS OF DOLLARS

	1967	1968	1969	1970	1971	1972	5 Year C.G.R.*	6 Months 1973
Savings & Loans	$10.7	$ 7.4	$ 4.2	$11.2	$28.3	$ 32.9	+25%	$14.8
Mutual Savings Banks	5.1	4.2	2.5	4.6	9.7	9.8	+14%	3.9
Life Insurance Companies	10.4	11.3	8.8	9.0	13.9	17.8	+11%	4.8
Commercial Banks	23.7	20.6	(9.3)	34.8	40.0	44.5	+13%	25.7
Total	$49.9	$43.5	$ 6.2	$59.6	$91.9	$105.0	+16%	$49.2

*Compound growth rates, nearest %
SOURCE: NAHB: ECONOMIC NEWS NOTES

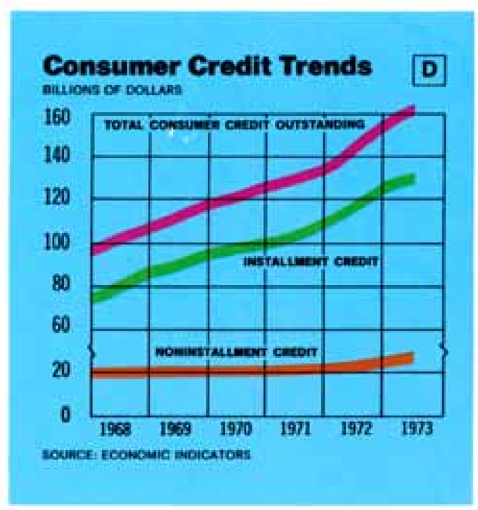
Savings & Loan Commitment Trends

C

FOURTH FEDERAL HOME LOAN BANK DISTRICT
MILLIONS OF DOLLARS*

	LOWE'S FISCAL 1971		LOWE'S FISCAL 1972		LOWE'S FISCAL 1973	
MONTH	Com*	Change	Com*	Change	Com*	Change
Aug.	$ 391	+ 18%	$ 953	+144%	$1,262	+32%
Sept.	400	+ 30%	907	+127%	1,254	+38%
Oct.	420	+ 54%	868	+106%	1,284	+48%
Nov.	428	+ 65%	835	+ 95%	1,281	+53%
Dec.	421	+ 82%	794	+ 89%	1,160	+46%
Jan.	455	+ 94%	837	+ 84%	1,237	+48%
Feb.	530	+113%	942	+ 78%	1,318	+40%
Mar.	705	+165%	1,099	+ 56%	1,691	+54%
Apr.	834	+170%	1,173	+ 41%	1,617	+38%
May	932	+169%	1,289	+ 38%	1,708	+33%
June	1,025	+170%	1,303	+ 27%	1,582	+21%
July	1,022	+161%	1,304	+ 28%	1,450e	+12%

*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 73 of Lowe's 100 stores are located. Federally-insured savings and loans activity approximates 97% of all savings and loans.



A network of sources of money and credit is necessary for Lowe's to function and to grow."

The money and credit supplies controlled by government, banks, and savings and loans play an important role in Lowe's growth.

"We intend to compete harder for a larger share of all the available business."

Lowe's serves a wide variety of customers — both homeowners and professional builders — each of whom find their way to Lowe's in ever increasing numbers.

Professional Customers: 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 100 basic marketing areas served by present Lowe's stores, these professional buyers number over 115,000. Approximately one-third of this number are Lowe's customers for at least a portion of their buying needs.

Today's home building and construction industry is highly complex. Professional buyers have special needs, each unique to their particular situations. The services that Lowe's offers are designed to eliminate many of our professional buyers' headaches and uncertainties. To better serve these needs, Lowe's has designated a major section of our sales force as professional sales specialists, who make the majority of their sales to these buyers.

To further aid our professional buyers, Lowe's also offers many other special services. Many of these have been discussed elsewhere in this report, including our Homestead homes, our door and window shops, our truss operations, our credit policies, and our delivery capabilities. The loyalty that is developed through these services and the personal contacts between our salesmen and their customers is a distinct asset to the steady growth trend at Lowe's. For 1974, we are focusing on an intensified marketing effort to our pro prospects. We intend to compete harder for a larger share of the available business.

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 decorating, home entertainment, lawn and garden and outdoor living, the number of households — rather than the population — in each Lowe's market provides the best census of marketing opportunity. The present 100 store marketing areas serve just over 6,000,000 households (a 20% increase over fiscal 1972), or an average of over 60,000 per store market area (compared to 58,000 in fiscal 1972).

Lowe's has taken several steps in recent years to increase its retail business. The first of these was the establishment of a consumer sales force, and the second was the enlargement of our basic sales floor display areas. In addition, Lowe's has continually strived to upgrade the product knowledge of our consumer sales force through extensive training, to give the potential customer relevant factual information in its advertising materials, and to expand the amount of do-it-yourself information available to Lowe's customers in Lowe's stores. Our growth in retail sales demonstrates that these efforts have been acknowledged and appreciated by our retail customers.

Customer Sales Profile: Table A below 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 *Home Center* 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 $1,439,000, more than twice as great as those dealers surveyed in Table A.

Customer Sales Profile, Building Material Dealers

A

		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 HOME CENTER

Stock Offerings: Although Lowe's has never sold any stock to the public, fiscal 1973 was our twelfth year as a public company. The company's stock was put on the market by Lowe's Profit Sharing Plan and Trust in two public offerings, both managed by G. H. Walker & Co., Inc., the first in October, 1961, and the second in January, 1971. Thus one of the unique aspects of Lowe's capital financing and growth is that the company has never received any proceeds from the public sale of stock.

Stockholder Composition: The number of shareholders increased this year to 3,704, up from 3,038. An additional 1,000 to 1,200 are in nominee accounts of various brokerage firms. This broadened base plus the outstanding loyalty of Lowe's stockholder over the years is a valuable asset to the company. Our stockholder geography is shown in Table A. A total of 71% of you live in the 14 states in which we operate stores, and the group includes many suppliers, employees, and customers. In other words, those who know us best. However, 45 of the 50 states, the District of Columbia, Canada, England and several other countries are represented. Lowe's Profit Sharing Plan and Trust continues to be the largest stockholder, with approximately 2,400,000 shares. Thus each Lowe's employee has a direct interest in our continued growth and profitability.

Stockholder Census [A]

AS OF JULY 31, 1973

	Holders	Shares
Alabama	28	7,539
Alaska	1	66
Arizona	5	359
Arkansas	1	187
California	59	49,499
Colorado	2	600
Connecticut	60	55,690
Delaware	20	5,891
District of Columbia	31	29,813
Florida	56	22,857
Georgia	110	41,517
Hawaii	3	1,066
Illinois	63	181,727
Indiana	9	413
Iowa	8	6,371
Kansas	3	4,032
Kentucky	21	3,543
Louisiana	12	1,495
Maine	1	33
Maryland	90	269,474
Massachusetts	103	630,876
Michigan	24	5,849
Minnesota	23	107,298
Mississippi	13	3,185
Missouri	46	24,977
Nebraska	6	2,578
Nevada	2	4,600
New Hampshire	3	310
New Jersey	68	22,798
New Mexico	2	636
New York	278	2,287,275
North Carolina	1,712	1,581,067
Ohio	60	23,243
Oklahoma	17	18,574
Oregon	8	1,412
Pennsylvania	76	143,250
Rhode Island	86	76,896
South Carolina	149	52,331
South Dakota	2	240
Tennessee	111	98,615
Texas	24	25,674
Vermont	5	14,616
Virginia	229	223,152
Washington	12	13,331
West Virginia	24	4,399
Wisconsin	17	28,285
Canada	8	2,580
England	6	4,500
Mexico	1	400
Europe - Various	5	773
Subtotal	3,703	6,085,892
Employees' Profit Sharing Trust	1	2,401,421
Totals	3,704	8,487,313

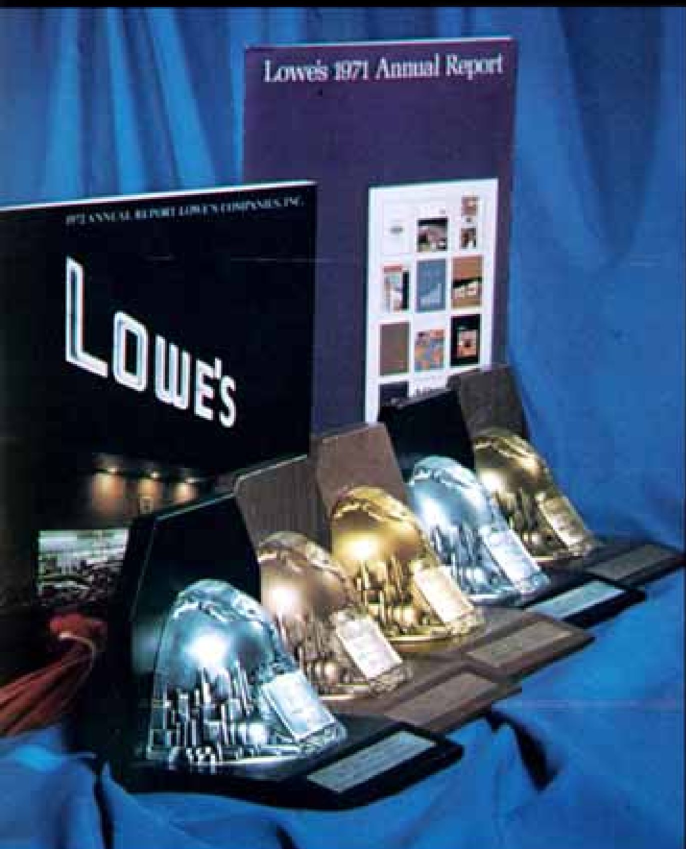
Stockholder Survey: We appreciate your participation in our annual surveys of stockholders. This is one of the major ways we receive feedback from you concerning Lowe's. Thus we read every word of your replies, and have incorporated many of your highly relevant comments and suggestions into our format of quarterly and annual reports. The results of last year's questionnaire are summarized in Table B. Over 25% of you have responded to this survey and this broad cross section gives us confidence in these interesting facts and opinions.

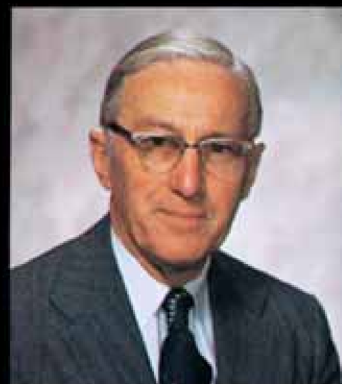
Market: Lowe's stock is traded fairly actively over the counter (O-T-C). Prices are quoted by the National Association of Securities Dealers (N.A.S.D.) and published daily in the Over-The-Counter Markets section of various financial publications. The O-T-C market is a large, decentralized, negotiation-type 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. In a survey of June 29, 1973, in *Over The Counter Securities Review*, Lowe's ranked 31st in market value among all O-T-C stocks in the nation.

Stockholder Survey [B]

1 Gender of Shareholders:	
Male	74.9%
Female	21.8%
Corporate or Joint Ownership	3.3%
2 Age Group Breakdown:	
Below 25	5.6%
25-34	9.2%
35-44	15.2%
45-54	26.1%
55-64	24.9%
65 and over	19.0%
3 Length of Ownership in Lowe's:	
5 years or more	52.7%
2-5 years	23.8%
1-2 years	11.6%
1 year	11.9%
4 Method of Stockholder Awareness:	
Stockbroker	34.8%
Lowe's Employee	22.2%
Annual Report	5.8%
Media Article	7.6%
Other	29.6%
5 Best Liked Portion of Report:	
Lowe's How We Grow	22.2%
16 Year Review	18.2%
Chairman's Letter	14.3%
President's Report	11.7%
Audited Financial Statements	11.1%
Graphs and Charts	9.5%
Lowe's Sources and Resources	8.0%
Market Dimensions	4.0%
Other	1.0%
6 Reading of Report:	
Cover to Cover	29.9%
Almost Every Page	34.6%
About Half	15.1%
Highlights	18.9%
Quick Glance	2.2%
Didn't Read Any	.0%
7 Opinion of Report:	
Excellent	82.1%
Good	17.6%
Average	.3%
Marginal	.0%
Poor	.0%
Unsatisfactory	.0%
8 Satisfaction of Shareholders:	
Satisfied	90.9%
Moderately Satisfied	7.1%
Moderately Dissatisfied	.3%
Dissatisfied	.0%
No Opinion	1.7%
9 Rating of Lowe's by Shareholders:	
Up with the times	94.4%
About Average	4.5%
Behind the times	.3%
No Opinion	.8%
10 Appropriate Attention Received on Comments, Suggestion, Etc.:	
Yes	60.2%
No	.9%
No Opinion	38.9%
11 Do Shareholders Receive Sufficient Information:	
Yes	93.0%
No	.9%
Not Entirely	6.1%
12 Investment Objectives:	
Capital Appreciation	73.5%
Dividend Income	3.1%
Both	21.9%
No Opinion	1.5%

"The outstanding loyalty of ***Lowe's stockholders*** *– a valuable asset to the company."*





Shown here are two company Directors, W. H. McElwee (above) and Gordon Cadwgan (below). Also pictured are various aspects of shareholder communications activity and market trading.

Corporate Information

Store Locations

Alabama
Birmingham
Dothan
Gadsden
Huntsville
Mobile
Montgomery
Muscle Shoals
Tuscaloosa

Delaware
Dover
Wilmington

Florida
Pensacola
Tallahassee

Georgia
Albany
Athens
Augusta
College Park
Columbus
Doraville
Macon
Moultrie
Savannah
Smyrna

Indiana
Clarksville

Kentucky
Elizabethtown
Frankfort
Lexington
Louisville

Maryland
Cumberland
Hagerstown
Salisbury

Mississippi
Tupelo

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

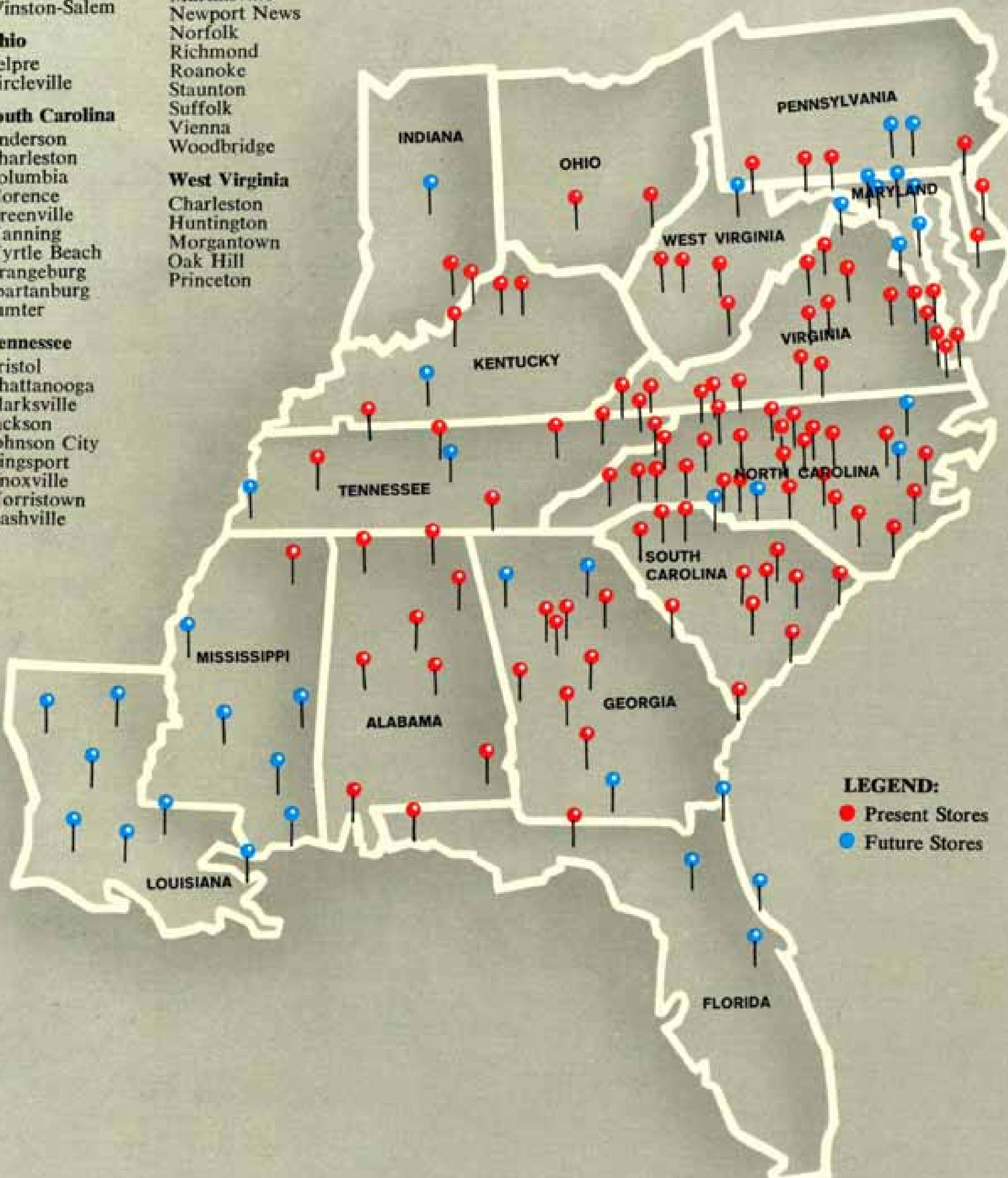
Ohio
Belpre
Circleville

South Carolina
Anderson
Charleston
Columbia
Florence
Greenville
Manning
Myrtle Beach
Orangeburg
Spartanburg
Sumter

Tennessee
Bristol
Chattanooga
Clarksville
Jackson
Johnson City
Kingsport
Knoxville
Morristown
Nashville

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

West Virginia
Charleston
Huntington
Morgantown
Oak Hill
Princeton



Board of Directors

as of July 31, 1973

EDWIN DUNCAN
Chairman of the Board of Directors
12 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
Secretary, Investment Committee, Lowe's Profit Sharing Trust
27 Years with Lowe's
BOARD OF VISITORS, WAKE FOREST UNIVERSITY
TRUSTEE, SULLINS COLLEGE
DIRECTOR, NORTHWESTERN 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
18 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
17 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
16 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
Chairman, Investment Committee, Lowe's Profit Sharing Trust
15 Years with Lowe's
TRUSTEE, NORTHWESTERN FINANCIAL INVESTORS
MEMBER, PLYWOOD ADVISORY COUNCIL, CHICAGO BOARD OF TRADE
DIRECTOR, BRAD RAGAN, INC.
WHO'S WHO IN AMERICAN POLITICS

WILLIAM H. McELWEE
Board of Directors
General Counsel, Senior Vice President
24 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
12 Years with Lowe's
VICE PRESIDENT, G. H. WALKER & CO., INC.
FELLOW, BROWN UNIVERSITY
DIRECTOR, LEACH & GARNER CO.
PARTNER, TEXAS LAND AND CATTLE CO.

General Information

Vice Presidents — Regions
Dwight E. Pardue
Albert E. Plemmons
J. Ross Burgess, Jr.
J. Max Garrett, Jr.

Vice President — Purchasing
Robert E. Black, Jr.

Vice President — Management Development
A. Robert Gresham

Vice Presidents — Sales
E. L. Dugger, Sr.
M. Benfield Phillips

Vice Presidents — Marketing
Michael D. Brown
Walter L. McColl
Edward F. Greene

Treasurer
Rex L. Shumate

Controller
Richard Elledge

Credit Manager
Arnold N. Lakey

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

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 Co. N.A.
Box 3001
Winston-Salem, N.C. 27102

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

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

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

The Northwestern Bank
Box 311
North Wilkesboro, N.C. 28674

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

Certified Public Accountants:
J. A. Grisette & Co.
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 1958-1973	10 Year Compound Growth Rates 1963-1973	5 Year Compound Growth Rates 1968-1973	1973	
	Stores and People					
1	Number of Stores	17.4%	16.4%	13.5%	100	1
2	Number of Employees	18.1%	19.5%	21.9%	3,296	2
3	Customers Served (Thousands)	18.0%	18.2%	18.3%	4,717	3
4	Average Customer Purchase				$ 69.29	4
	Comparative Income Statement (Thousands)					
5	Total Sales	20.3%	23.7%	27.5%	$326,846	5
6	Pre-Tax Earnings	25.6%	26.4%	28.7%	$ 25,393	6
7	Taxes on Income	25.3%	26.2%	28.5%	$ 12,665	7
8	Net Earnings	25.9%	26.6%	28.8%	$ 12,728	8
9	Cash Dividends Paid	n/a	9.5%	6.1%	$ 1,017	9
10	Earnings Retained and Reinvested	25.2%	30.9%	32.8%	$ 11,711	10
	Dollars Per Share (Nearest Cent) (1) (3)					
11	Sales	17.4%	22.9%	27.1%	$ 38.57	11
12	Earnings (2)	[illegible]	25.1%	28.4%	$ 1.50	12
13	Cash Dividends	n/a	9.2%	5.9%	$ .12	13
14	Earnings Retained and Reinvested	24.8%	28.8%	32.3%	$ 1.38	14
15	Shareholders' Equity	23.1%	22.5%	24.6%	$ 6.10	15
	Performance Measurements*					
16	Asset Turnover (Sales per Asset Dollar)				$ 3.65	16
17	Return on Sales (Earnings as % of Sales)				× 3.89%	17
18	Return on Assets				= 14.22%	18
19	Leverage Factor (Asset Dollars per Equity Dollar)				× 2.28	19
20	Return on Shareholders' Equity				= 32.42%	20
	Comparative Balance Sheet (Thousands)					
21	Current Asset Totals	22.5%	21.3%	27.5%	$ 96,391	21
22	Cash	18.9%	11.1%	13.7%	$ 7,859	22
23	Accounts Receivable (Net of Reserve)	25.0%	22.4%	25.9%	$ 37,603	23
24	Inventories (Lower of Cost or Market)	21.7%	23.3%	32.3%	$ 50,639	24
25	Other Current Assets				$ 290	25
26	Fixed Assets	29.2%	34.3%	35.0%	$ 29,238	26
27	Other Assets				$ 85	27
28	Total Assets	23.6%	23.2%	28.9%	$125,714	28
29	Current Liabilities Totals	22.9%	22.8%	30.1%	$ 55,694	29
30	Accounts Payable	22.5%	21.8%	30.1%	$ 36,101	30
31	Income Tax Provisions	19.1%	16.8%	13.4%	$ 5,073	31
32	Other Current Liabilities	26.7%	30.5%	42.2%	$ 14,520	32
33	Long-Term Debt	25.7%	23.9%	39.7%	$ 18,238	33
34	Total Liabilities	23.6%	23.0%	32.2%	$ 73,932	34
35	Shareholders' Equity	23.6%	23.4%	24.9%	$ 51,782	35
36	Ratio: Equity ÷ Long Term Debt				2.84	36
37	Year End Leverage Factor: Assets ÷ Equity				2.43	37
	Shareholders and Shares					
38	Shareholders of Record, Year End				3,704	38
39	Shares Outstanding, Year End (Thousands) (1) (3) (4)				8,487	39
40	Stock Price Range During Year (1)				$72.00-49.00	40

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 33⅓% stock dividend as of July 31, 1972.

(2) After deducting $2,250 dividends per year on preferred stock outstanding, for 1961 through 1972.

(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.

1972	1971	1970	1969	10 Year Compound Growth Rates	5 Year Compound Growth Rates	Base Year 1968	1967	1966	
86	75	64	58	19.2%	19.2%	53	44	39	1
2,630	2,071	1,670	1,450	16.2%	17.1%	1,223	1,017	891	2
3,820	3,194	2,729	2,290	17.9%	18.2%	2,034	1,755	1,636	3
$ 61.40	$ 53.13	$ 47.09	$ 51.98			$ 47.70	$ 43.14	$ 47.10	4
$234,556	$169,723	$128,491	$119,053	16.9%	20.0%	$ 97,031	$ 75,695	$ 77,043	5
$ 18,143	$ 13,027	$ 9,938	$ 9,514	24.1%	24.2%	$ 7,202	$ 5,151	$ 5,286	6
$ 9,022	$ 6,479	$ 5,068	$ 4,906	23.7%	24.0%	$ 3,609	$ 2,381	$ 2,496	7
$ 9,121	$ 6,548	$ 4,870	$ 4,608	24.4%	24.4%	$ 3,593	$ 2,770	$ 2,790	8
$ 946	$ 907	$ 844	$ 780	n/a	13.0%	$ 756	$ 661	$ 616	9
$ 8,174	$ 5,641	$ 4,026	$ 3,828	21.5%	29.0%	$ 2,837	$ 2,109	$ 2,174	10
$ 27.81	$ 20.16	$ 15.27	$ 14.15	16.4%	18.9%	$ 11.65	$ 9.20	$ 9.44	11
$ 1.08	$ .78	$ .58	$ .55	24.0%	21.9%	$ .43	$ .34	$ .34	12
$ .11	$ .11	$ .10	$ .09	n/a	12.5%	$ .09	$ .08	$ .08	13
$ .97	$ .67	$ .48	$ .46	21.1%	25.3%	$ .34	$ .26	$ .26	14
$ 4.64	$ 3.64	$ 2.96	$ 2.48	22.4%	20.5%	$ 2.03	$ 1.69	$ 1.43	15
$ 3.40	$ 3.43	$ 3.09	$ 3.37			$ 3.24	$ 2.65	$ 3.34	16
× 3.89%	× 3.86%	× 3.79%	× 3.87%			× 3.70%	× 3.66%	× 3.62%	17
= 13.20%	= 13.25%	= 11.72%	= 13.03%			= 11.98%	= 9.70%	= 12.09%	18
× 2.26	× 1.99	× 1.99	× 2.08			× 2.15	× 2.42	× 2.43	19
= 29.81%	= 26.31%	= 23.34%	= 27.07%			= 25.76%	= 23.49%	= 29.40%	20
$ 70,110	$ 54,911	$ 38,878	$ 33,433	20.0%	15.4%	$ 28,617	$ 24,164	$ 23,396	21
$ 7,802	$ 6,304	$ 4,658	$ 4,640	21.6%	8.6%	$ 4,129	$ 4,814	$ 3,024	22
$ 27,440	$ 20,944	$ 14,887	$ 14,559	24.5%	19.0%	$ 11,880	$ 9,675	$ 9,310	23
$ 34,475	$ 27,332	$ 19,040	$ 14,183	16.7%	15.0%	$ 12,475	$ 9,532	$ 10,931	24
$ 393	$ 331	$ 293	$ 51			$ 133	$ 143	$ 131	25
$ 19,330	$ 14,087	$ 10,390	$ 7,918	26.4%	33.7%	$ 6,546	$ 5,729	$ 5,058	26
$ 45	$ 88	$ 148	$ 209			$ 205	$ 99	$ 105	27
$ 89,485	$ 69,086	$ 49,416	$ 41,560	21.0%	17.7%	$ 35,368	$ 29,992	$ 28,559	28
$ 40,217	$ 31,198	$ 21,212	$ 18,505	19.5%	15.9%	$ 14,911	$ 12,503	$ 13,630	29
$ 27,684	$ 21,999	$ 15,178	$ 10,997	18.9%	14.0%	$ 9,703	$ 8,425	$ 9,496	30
$ 5,086	$ 4,293	$ 2,833	$ 3,380	22.0%	20.3%	$ 2,706	$ 2,177	$ 2,182	31
$ 7,447	$ 4,906	$ 3,201	$ 4,128	19.6%	19.8%	$ 2,502	$ 1,901	$ 1,952	32
$ 10,014	$ 7,296	$ 3,315	$ 2,192	19.3%	10.0%	$ 3,434	$ 3,527	$ 3,127	33
$ 50,231	$ 38,494	$ 24,527	$ 20,697	19.5%	14.5%	$ 18,346	$ 16,033	$ 16,765	34
$ 39,254	$ 30,592	$ 24,889	$ 20,863	22.9%	21.9%	$ 17,022	$ 13,959	$ 11,794	35
3.92	4.19	7.51	9.52			4.95	3.95	3.77	36
2.28	2.26	1.99	1.99			2.08	2.15	2.42	37
3,038	2,463	2,117	1,916			1,976	2,154	1,985	38
8,455	8,419	8,415	8,415			8,406	8,250	8,211	39
$66.50-30.00	$34.50-14.50	$18.00-9.50	$18.00-11.50			$12.00-6.00	$6.00-3.00	$5.00-3.50	40

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, to facilitate understanding of their interrelationships.

Asset Turnover is affected by sales volume, by the cash-cred marketing mix and by the composition and performance of left-side balance sheet factors. The amounts of assets allocated to inventory, accounts receivable, and fixed assets, and the turnover rate of inventory and receivables, all affect Asset Turnover. For every $1.00 in Assets at the beginning of fiscal 1973, Lowe's achieved $3.65 in sales.

1965	1964	5 Year Compound Growth Rates	Base Year 1963	1962	1961	1960	1959	Base Year 1958	
35	28	19.6%	22	18	15	15	13	9	1
762	636	15.3%	555	491	399	360	334	273	2
1,284	1,141	17.6%	883	703	651	581	514	393	3
$ 44.44	$ 42.66		$ 44.20	$ 46.52	$ 47.85	$ 52.80	$ 52.00	$ 52.00	4
$ 57,044	$ 48,680	13.8%	$ 39,012	$ 32,716	$ 31,128	$ 30,679	$ 27,005	$ 20,444	5
$ 3,942	$ 3,086	24.0%	$ 2,438	$ 2,054	$ 1,890	$ 1,359	$ 1,516	$ 833	6
$ 1,896	$ 1,518	23.5%	$ 1,233	$ 1,034	$ 956	$ 641	$ 760	$ 429	7
$ 2,046	$ 1,568	24.4%	$ 1,205	$ 1,020	$ 934	$ 718	$ 756	$ 404	8
$ 519	$ 460	n/a	$ 411	$ 402	$ 102	—	—	—	9
$ 1,527	$ 1,108	14.5%	$ 794	$ 618	$ 832	$ 718	$ 756	$ 404	10
$ 7.10	$ 6.14	13.9%	$ 4.91	$ 4.09	$ 3.89	$ 3.83	$ 3.38	$ 2.56	11
$ .25	$ .20	26.2%	$ .16	$ .13	$ .12	$ .09	$ .10	$ .05	12
$ .06	$ .06	n/a	$ .05	$ .05	$ .01	—	—	—	13
$ .19	$ .14	17.1%	$ .11	$ .08	$ .11	$ .09	$ .10	$ .05	14
$ 1.17	$ .97	24.3%	$ .80	$ .71	$ .63	$ .46	$ .37	$ .27	15
$ 3.20	$ 3.11		$ 2.98	$ 2.76	$ 3.32	$ 4.35	$ 5.13	$ 5.38	16
× 3.59%	× 3.22%		× 3.09%	× 3.12%	× 3.00%	× 2.34%	× 2.80%	× 1.98%	17
= 11.49%	= 10.03%		= 9.20%	= 8.62%	= 9.96%	= 10.18%	= 14.36%	= 10.65%	18
× 2.31	× 2.47		× 2.31	× 2.34	× 2.57	× 2.40	× 2.43	× 2.20	19
= 26.55%	= 24.78%		= 21.28%	= 20.23%	= 25.60%	= 24.43%	= 34.89%	= 23.40%	20
$ 19,187	$ 15,350	24.8%	$ 13,976	$ 11,702	$ 9,305	$ 8,071	$ 5,737	$ 4,618	21
$ 3,801	$ 3,374	36.2%	$ 2,735	$ 1,956	$ 1,299	$ 442	$ 365	$ 583	22
$ 7,165	$ 5,586	30.3%	$ 4,968	$ 3,769	$ 3,108	$ 2,858	$ 2,112	$ 1,324	23
$ 8,156	$ 6,337	18.5%	$ 6,214	$ 5,868	$ 4,801	$ 4,755	$ 3,164	$ 2,655	24
$ 65	$ 53		$ 59	$ 109	$ 97	$ 16	$ 96	$ 56	25
$ 3,832	$ 2,381	19.4%	$ 1,531	$ 1,261	$ 1,229	$ 1,253	$ 1,281	$ 630	26
$ 77	$ 73		$ 123	$ 134	$ 1,301	$ 58	$ 30	$ 19	27
$ 23,096	$ 17,804	24.3%	$ 15,630	$ 13,097	$ 11,835	$ 9,382	$ 7,048	$ 5,267	28
$ 11,213	$ 7,454	23.2%	$ 7,123	$ 5,696	$ 4,922	$ 4,874	$ 3,130	$ 2,513	29
$ 7,913	$ 5,149	23.9%	$ 5,036	$ 4,255	$ 3,187	$ 2,827	$ 1,562	$ 1,724	30
$ 1,671	$ 1,142	23.7%	$ 1,073	$ 855	$ 716	$ 521	$ 642	$ 371	31
$ 1,629	$ 1,163	19.4%	$ 1,014	$ 586	$ 1,019	$ 1,526	$ 926	$ 418	32
$ 2,377	$ 2,615	29.4%	$ 2,139	$ 1,680	$ 1,791	$ 862	$ 986	$ 589	33
$ 13,606	$ 10,097	24.6%	$ 9,304	$ 7,435	$ 6,792	$ 5,736	$ 4,116	$ 3,102	34
$ 9,490	$ 7,707	23.9%	$ 6,326	$ 5,662	$ 5,043	$ 3,646	$ 2,932	$ 2,165	35
3.99	2.95		2.95	3.37	2.81	4.23	2.97	5.26	36
2.43	2.31		2.47	2.31	2.35	2.57	2.40	2.43	37
1,871	1,967		2,034	2,047					38
8,122	7,946		7,904	8,000	8,000	8,000	8,000	8,000	39
$4.00-2.50	$3.00-1.50		$1.50-1.00	$2.50-1.50					40

Return on Sales is the measurement of the efficiency of the sales organization. It is affected by sales volume, customer and product mix, and income statement factors — margin rates, fixed and variable expenses, and tax rates. 1973's 3.89% was our highest return on sales to date. This, multiplied by Asset Turnover, gives Return on Assets of 14.22%. This is the same as dividing Net Earnings by Beginning Assets.

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 1973, Lowe's had $1.28 in other liabilities, thus financing $2.28 in assets. This 2.28 leverage factor times the 14.22% Return on Assets gives Return on Beginning Shareholder Equity of 32.42%. See page 14 for further discussion.

Lowe's Companies, Inc.

Index

LOWE'S
Companies, Inc.

Box 1111, North Wilkesboro, North Carolina 28656

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Lowe's 1973 Seventh Annual Investor Relations Survey

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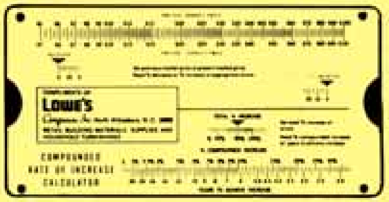
Attention: Robert L. Strickland

LOWE'S 1973 Investor Relations Survey

Dear Reader:

We want to make our investor relations program as inclusive and as effective as possible. Consequently, we rely on the views and opinions expressed by all the readers of our Annual Reports. You can help by taking a moment or two to complete the following questionaire. No postage is required to return it to us. As a token of our



appreciation for your time, we would like to send you our unique Lowe's Stock Market Calculator, a special slide rule for fast computation of yields, growth rates, p-e ratios, etc. Thank you for your interest and participation in this seventh annual survey.

Robert L. Strickland
Senior Vice President

☐ O.K., please send me the calculator!
☐ No, I don't need another calculator!

---

1. From which of the following groups does your interest in Lowe's stem? (Check more than one if applicable.)
   ☐ Shareholder ☐ Financial Press
   ☐ Security Analyst ☐ Mutual Fund
   ☐ Financial Advisor ☐ Lowe's Employee
   ☐ Stockbroker ☐ Other (specify below)

____

____

2. Are you ☐ male or ☐ female?

3. In which age group would you be listed?
   ☐ Under 25 years ☐ 45 to 54 years
   ☐ 25 to 34 years ☐ 55 to 64 years
   ☐ 35 to 44 years ☐ 65 years and over

4. When did you first become interested in Lowe's from an investment standpoint?
   Within the past: ☐ Two to five years
   ☐ Year ☐ Over five years
   ☐ One to two years ☐ Over ten years

5. How did you first become aware of Lowe's? (Check one)
   ☐ Through my stockbroker ☐ Newspaper or Magazine Article
   ☐ Through a Lowe's employee ☐ Other (please specify)
   ☐ Receiving your Annual Report ______________________________

6. Which section of our 1973 Annual Report did you like best? (Check one)
   ☐ All ☐ Market Dimensions
   ☐ President's Letter ☐ New Directions and Programs
   ☐ President's Report ☐ Lowe's How We Grow
   ☐ Audited Financial Statements ☐ 16 year Review
   ☐ Graphs and Charts ☐ Other (please specify)

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7. If not already included on one of our Financial Mailing Lists, please check here if you desire to receive future mailings.
   ☐ Yes ☐ No

8. How much of this Annual Report did you read?
   ☐ Cover to cover ☐ About half
   ☐ Almost every page ☐ Only the Highlights
   ☐ Most of it ☐ Gave it a quick glance

9. My overall judgment of the report was:
   ☐ Excellent ☐ Marginal
   ☐ Good ☐ Poor
   ☐ Average ☐ Unsatisfactory

10. If you are presently a Lowe's shareholder, are you satisfied with your investment?
   ☐ Satisfied ☐ Moderately dissatisfied
   ☐ Moderately satisfied ☐ Dissatisfied

11. As a Lowe's shareholder, do you feel you receive sufficient information from the Company on a regular basis to keep you adequately informed of the Company's progress and future plans?
   ☐ Yes ☐ No ☐ Not entirely (please explain)

____

____

____

____

12. As a Lowe's shareholder, what is your primary investment objective by investing in Lowe's?
   ☐ Capital appreciation ☐ A little of both
   ☐ Dividend income ☐ No opinion

13. Any other comments?

____

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____

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____

Again, we thank you for your assistance. Please complete the following.

Name ______________________________

____

Address ______________________________

____

City ______________________________

State ______________ Zip ______________