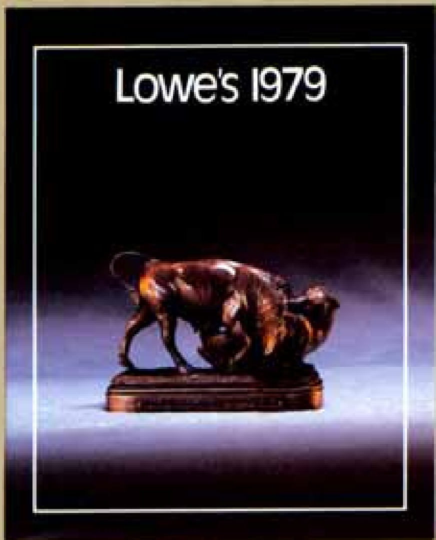
Lowe's 1979



Company Profile

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

Lowe's operates a total of 209 retail stores in 19 states, located principally in the South Atlantic and South Central regions of the United States. Each store combines the merchandise, service, and functions of a lumber yard, a building materials supplier, an air conditioning, heating, plumbing and electrical supply center, a hardware store, an appliance and home electronics dealer, a hard goods discounter, and a professional marketing company. Merchandise items, many of which are nationally advertised brand names, are counted in stock-keeping units which currently number 12,000. The typical store stocks approximately 8,000 of these. These items are provided to two major customer groups—Professional Buyers and Retail Customers—within the same store facility. Lowe's general office is located in North Wilkesboro, N.C. Regional offices are located there and in Lynchburg, Va., Charlotte, N.C., Louisville, Ky., and Montgomery, Ala. The company employed approximately 5800 persons or an average of 27.8 per store at the end of the fiscal year.

Contents

Cover: The anthropomorphic symbol of the stock market struggle between the forces of optimism and pessimism, the Bull and the Bear, are represented by this miniature casting of the famed New York Stock Exchange sculpture. Lowe's Companies, Inc. was given this casting, shown on the cover, at the time of its listing on the New York Exchange December 19, 1979. (Cover story begins on Page 28.)

Lowe's Companies, Inc.
Box 1111
North Wilkesboro, North Carolina 28656
919/667-3111

Lowe's stock is traded under
the ticker symbol of LOW
on the New York Stock Exchange

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

May 9, 1980

Dear Shareholder:

One year ago in this letter we discussed the probabilities for Fiscal 1979 as follows:

"We saw a slowing of building permits in our area during the last three quarters of Fiscal 1978. We will not be surprised to see that slowdown continue during 1979. On the retail side, our momentum increased as 1978 progressed, and we believe we can maintain momentum at retail in 1979. Our net outlook is for another 1970, with a relatively soft landing, rather than the severity of 1974 and 1975."

That outlook proved basically correct in many respects. In Fiscal 1970, we had a declining housing market but a surge of sales to retail customers enabled us to achieve a sales increase of 8% and a net earnings increase of 6%. In Fiscal 1979 we had a declining housing market, a surge of sales to retail customers, and as shown below, a sales increase of 14% and a net earnings increase of 5%.

Although our year-ago outlook was, for people who basically prefer not to forecast, very close to our actual results, and while the year contained its share of positive results and good news, which will be discussed; we choose to call the results mixed, primarily because of the disparity in the growth rates of sales and earnings. We prefer better balance, and higher percentage returns on sales and equity. Efforts to improve balance and returns have begun, although 1980 looks to be a far more foreboding business climate than did 1979 at this time last year.

Highlights of some of the year's key results follow:

	Change	1979	1978
Sales	+14%	$904,651,193	$793,125,313
Pre-tax earnings	+ 3%	47,331,130	45,864,603
Taxes on earnings	+ 1%	22,375,694	22,140,770
Net earnings	+ 5%	24,955,436	23,723,833
Depreciation	+15%	10,063,838	8,713,648
Cash flow	+10%	35,019,273	32,437,481
Cash dividends	+25%	$ 6,511,063	$ 5,208,850
Number of stores	+ 5%	209	199

While sales were up by more than $111 million, or 14%, again this year the vast majority of the increase--62% of it--came from higher sales to retail customers. In fact, our retail sales volume of $393,000,000 in 1979 exceeded our total sales volume in Fiscal 1975. We intend to keep on getting this act together. A complete discussion of this phase of our business as well as what we have been doing to improve market penetration to our professional customers is presented on Pages 13-15, 24-25, and 27-28 of this annual report.

As shown, earnings grew by 5%, with economic trends adversely impacting our fourth quarter. While this growth is neither the equal of some of our great years, nor our 1979 expectations, we can't characterize the year as unsatisfactory, because of developments in cash flow and dividends. Some interesting comparisons between Lowe's and other companies in the building materials business and in the general retail business are on Pages 6 and 7.

The earnings in the table above reflect LIFO inventory accounting. While this method helps offset the ravages of inflation by removing phantom inventory profits, its effect is to diminish, among other things, reported earnings, cash flow, and book value per share. Most major retailers who are concerned with the quality of their earnings have adopted LIFO. Again, the statistics on Pages 6 and 7 will be helpful in judging Lowe's and others to whom we are frequently compared.

At this point, we invite your attention to our traditional back cover fold-out review of performance, specifically Note 2 and the Fiscal 1978 and 1979 figures. There is significant supplemental information presented, affecting, among other things, earnings, cash flow, and equity.

Cash flow, considered one of the most important measures of profitability, increased more than $2.5 million, or 10%, to another all-time high. We invite your attention to the notable achievement shown in line 9, on Pages 57 through 59. Throughout the business cycles of the past 21 years, Lowe's cash flow per share has never declined. For an even more accurate supplemental information calculation on cash flow, one can subtract the actual tax liability on the Audited Income Statement for Fiscal 1978 and 1979. from the pre-tax earnings listed on line 6, Page 57, and add back the depreciation charge from the Audited Income Statement.

During the past year, Lowe's paid cash dividends of $6,511,063, an increase of 25% over the amount paid in 1978. This is 27% of prior-year (1978) earnings, just over our previously stated belief that a "20% to 25% payout of prior-year earnings is an appropriate range under the present circumstances." Since then, we have increasingly realized that dividend payout may better be thought of as a proportion of cash flow instead of as a proportion of reported earnings.

At the beginning of the present fiscal year, the dividend rate for the first quarter was increased to 15¢ per share. This is in line with the aforementioned new consideration, and also our feeling that the growth rate of dividends is of greater importance to Lowe's shareholders and the company itself than the payout rate. Your attention is called to the dividend performance of Lowe's and the selected group of other somewhat similar companies on Pages 6 and 7.

We opened 13 new stores in Fiscal 1979 in six states and closed three for a net addition of 10, to bring our total number of stores operated at year-end to 209, an increase of 5%. This, however, does not tell the full story of store progress for the year. There are 119,472 square feet of selling space in the new stores and 31,283 in the three closed, for a net addition of 88,189. We rebuilt and relocated five stores in existing markets. With these we added a net total of 32,434 square feet of new space. Thus we built five new stores in existing markets, six more in new markets, and added seven takeover stores in new markets for a total of 18. The total of square footage added during the year--new stores in new markets, new stores in existinq markets and takeover stores in new markets--was 120,623.

The new stores are located as follows: three each in North Carolina, Indiana, and Kentucky, two in West Virginia, and one each in Texas and Alabama. The rebuilt stores are in Maryland, Ohio, Virginia, and two in North Carolina. Lowe's policy is to charge all pre-opening and Grand Opening expenses against the income statement of the year in which the stores were opened. Six of the 13 new market stores were opened in the fourth quarter and four of the five new stores in existing markets were opened in the same time period, placing the greatest fiscal burden of this policy in the final quarter of the year.

In Fiscal 1980 we plan to acquire four new stores in the growing east Texas market, two of which will have sales floor additions this year. Plans are underway for additional stores in Louisiana, Pennsylvania, and Kentucky, in keeping with our policy of filling in at the perimeter of our area and back-filling in areas with significant growth potential. We have identified 25 desired new markets for Lowe's next stores, but in the present economic climate, we are considering them in decision-stages of 13 and 12, depending on business conditions. We prefer flexibility and profitability over a pre-determined store numbers game.

Lowe's is in a comfortable conservative financial position. In the past five years Lowe's sales have increased 233% and while we have increased cash dividend payments by 536% in that period, shareholders' equity has grown by 190%. Lowe's current ratio is 2.49 to 1, an improvement over the 2.38 to 1 ratio in 1975, and considerably better than the 2.00 to 1 ratio considered appropriate by financial analysts. Our turnover rates of both inventory and accounts receivables have improved this year, tribute to positive management control by two outstanding departments. We do not plan any equity financing since Lowe's continues to generate necessary cash flow internally.

Much effort in recent months has been directed to the goal of positioning the company to move through the difficult time at hand and to be ready to aggressively participate in the growth which is certainly ahead of us. This annual report details many of these positioning improvements. For example, we listed Lowe's stock on the New York Stock Exchange, the major international market for securities; we developed a new store sales floor flair and dynamic; we made rapid strides to obtain more retail business, including the inauguration of a retail credit card and a substantial enhancement of our advertising strategies; loyalties of our professional builders were strengthened; we placed into operation a new General Ledger system which improves the flow of management information; we improved the merchandising of products in our stores to provide better selection for all types of shoppers; and we developed better methods of inventory management. We call these activities the "Upscaling of Lowe's."

This "Upscaling of Lowe's" theme was chosen to provide a convenient framework to present to you a large body of information about your company--to report to you on what we have done, to provide you with a quantity of forward-looking research, and--we hope--to satisfy you that we merit your continuing support.

With inflation a household word and national menace, we invite your attention to Note 11 of the Audited Financial Statements (Pages 50-52). In compliance with a ruling of the Financial Accounting Standards Board, Note 11 restates our 1979 earnings to reflect the impact of inflation. We believe the current cost technique provides the better comparison between companies, but the constant dollar technique is also useful in comparing a company's own progress in sales, earnings, and dividends against general inflation trends in the nation. We also believe that Lowe's restated results will look very good indeed, compared to more capital-intensive companies and those who have stubbornly stuck with FIFO inventory accounting.

As we look at probable 1980 results, it is clear that the other shoe has dropped resoundingly. The highest interest rates since the Civil War, and the extreme tightening of the money supply will bring a deep recession to the housing industry, which has to adversely affect housing-related retailers like Lowe's. While we are pleased with the continuing improvements of our retail sales, and are fortunately situated geographically, we know that our present balance between professional sales and retail sales will not help us to sidestep a downturn.

So 1980 will not be a business-as-usual year. Inventories, receivables, expenses, personnel, and expansion will receive more diligent care and prudent management than ever before. When the economic cycle begins its upswing, we will be strategically positioned to resume setting new highs for Lowe's.

We close this letter, as always, with a sincere expression of appreciation to all the Lowe's team--our fellow directors, our shareholders, our employees, our customers, our suppliers, our associates, and our friends, for your confidence, your achievements, and your dedication to Lowe's progress.

Cordial good wishes,

Robert L. Strickland

Robert L. Strickland
Chairman of the Board of Directors

Leonard G. Herring

Leonard G. Herring
President and Chief Executive Officer

Performance Review–Financial Highlights

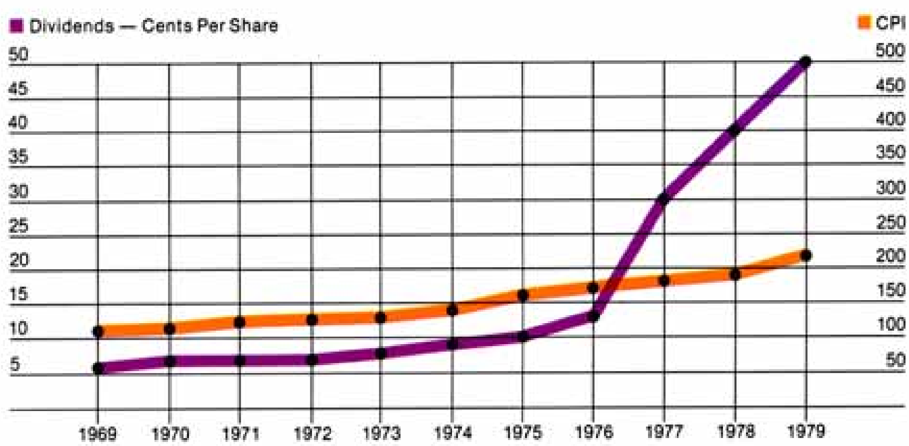
		Change	Fiscal 1979	Fiscal 1978
For the year	Sales of products and services	+14%	**$904,651,193**	$793,125,313
	Net earnings(1)	+ 5%	**$ 24,955,436**	$ 23,723,833
	Cash flow	+10%	**$ 35,019,273**	$ 32,437,481
At year-end	Total capital invested	+11%	**$299,899,166**	$269,695,102
	Shareholders' equity	+13%	**$159,096,916**	$140,652,575
	Debt	−11%	**$ 60,204,771**	$ 67,401,136
	Number of shares		**13,022,126**	13,022,126
Per Share	Earnings(1)	+ 5%	**$ 1.92**	$ 1.82
	Dividends paid	+25%	**$ .50**	$ .40
	Shareholders' equity—year-end	+13%	**$12.22**	$10.80
	Cash flow	+ 8%	**$ 2.69**	$ 2.49
Measurements	Asset turnover (Sales/asset dollar)		**$ 3.35**	$ 3.28
	Return on sales (Earnings as % of sales)		**2.76%**	2.99%
	Return on assets		**9.22%**	9.82%
	Leverage factor (Asset dollars/equity dollars)		**1.92**	1.98
	Return on equity		**17.66%**	19.42%
	(1) FIFO Net earnings	+ 3%	$ 28,772,680	$ 27,861,944
	FIFO Earnings per share	+ 3%	$ 2.21	$ 2.14

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

Lowe's Common Stock Dividend vs The Consumer Price Index

Year	Dividends Per Share	Consumer Price Index
1969	6¢	109.8
1970	7¢	116.3
1971	7¢	121.3
1972	7¢	125.3
1973	8¢	133.1
1974	9¢	147.7
1975	10¢	161.2
1976	13¢	170.5
1977	30¢	181.5
1978	40¢	195.4
1979	50¢	217.4

Lowe's Dividend 10-Yr. Compound Growth Rate 21.7%
CPI 10-Year Compound Growth Rate 6.5%



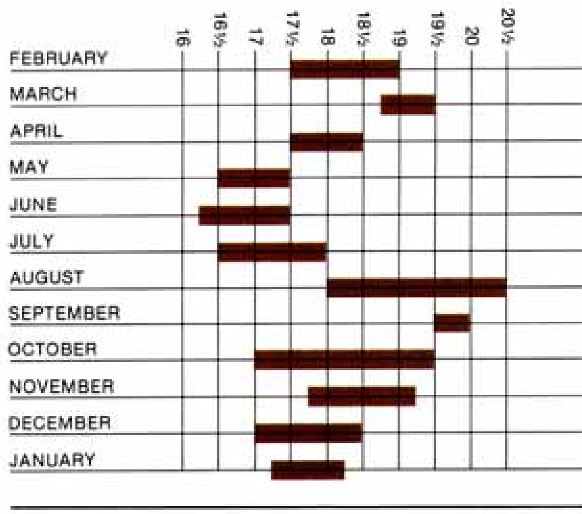
Performance Review

Lowe's Is a Competitive

Ways to Measure—Stock Performance

While the Dow-Jones 30 index is the most popular index against which to measure the price of a stock, such as Lowe's, for a year or more, two others are more reflective of the entire market—the Standard & Poor's 500, which measures 500 securities' performance, and the Wilshire 5000. The Wilshire Equity Index is the most reflective in that it measures the total market value of all stocks listed on the New York and American exchanges as well as the actively traded OTC issues. The measurement is in billions of dollars.

Lowe's Stock Price



Ways to Measure—Lowe's vs. Selected Others

Of course, Lowe's and its various investment characteristics can be measured against any other stock or index. However, performance against companies in similar businesses, i.e., Wickes, Payless, etc.; or general-line giant retailers, i.e., Federated, Sears, etc.; or against limited-scope companies like Color Tile and Pay 'N Pak, is more direct and appropriate. Here growth rates in sales, earnings per share, and dividends, as well as dividend yields and payout rates, and P/E ratios can be studied. More direct comparisons can be made when differences such as whether the company is on LIFO or FIFO inventory accounting are known. Quality of earnings is generally regarded as better in LIFO companies, with cash flow enhanced by not having to pay taxes on phantom profits.

Company	Price Per Share*	LIFO or FIFO	Current Dividend*
Lowe's	$17.00	L-77	$ .60
Wickes	15.87	F	1.04
Payless	15.25	F	.15
Evans	22.50	F	1.60
Scotty's	18.87	F	.44
Wolohan	6.87	L-74	.32
Federated	27.00	L-48	1.70
Carter Hawley Hale	17.00	L-74	1.10
Sears	17.12	L-75	1.28
Kmart	21.37	L-75	.84
Penney	25.50	L-75	1.76
Color Tile	22.50	F	NIL
Pay 'N Pak	14.25	F	.60
Standard Brands Paint	24.62	F	.64
Stanley	36.75	F	1.24
Ryan Homes	22.12	F	1.20
Black & Decker	$22.25	L-79	$ .76

Sources of figures for other companies: Annual Reports, Quarterly Reports; P/E Ratios, *Wall Street Journal.*

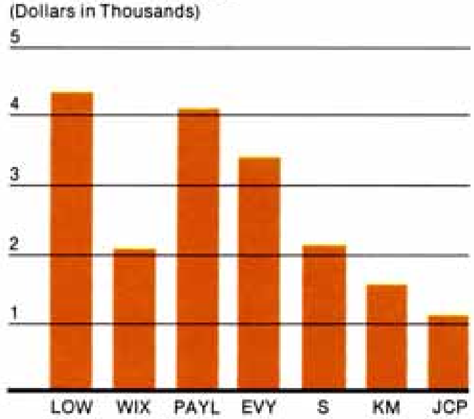
*1/31/80
**Year-End, or last four available quarters.

Ways to Measure—Lowe's Profitability Compared

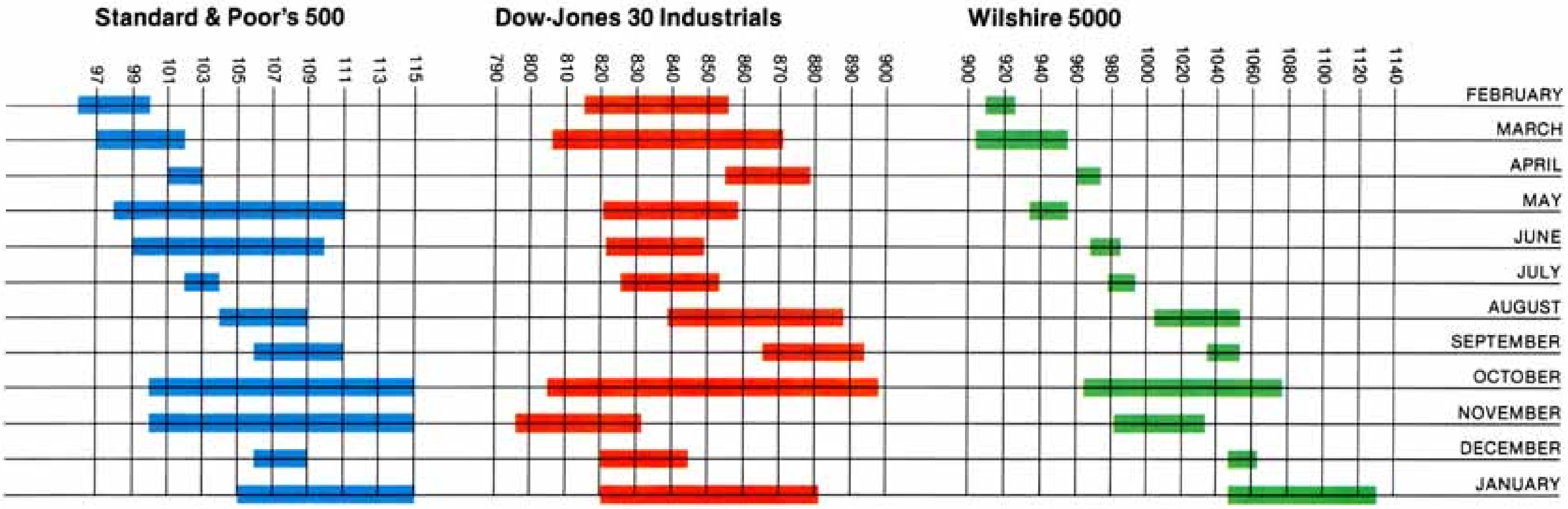
Return on equity, as derived in the Strategic Profit Model, compares Lowe's with several other companies with whom we are often compared by investors and analysts. For a full discussion of this formula, its variables, and results, see our review of historical financial performance in the fold-out of the inside back cover. Sales and profits per employee are one more good way to measure the performance of any retail organization. Lowe's performance is one of pride to management and employees and one of profit to investors!

Profit Per Employee

(Dollars in Thousands)



Investment Opportunity



1974 Dividend	5 Yr.CGR Dividend	Current Dividend Yield*	Current Payout Rate*	Current P/E Ratio*	5 Yr. Hi-Lo P/E Ratio	1979 Earnings Per Share	1974 Earnings Per Share	5 Yr.** CGR EPS	1979** Sales (000,000)	1974 Sales (000,000)	5Yr.** CGR Sales
$ .0825	48.71%	3.52%	31%	8.85	38-9	$1.92	$1.14	10.99%	$ 905	$ 362	20.11%
						2.21(C)		14.16(C)			
1.0000	.79	6.55	30	4.64	26-4	3.42(A)	1.37	20.08	2,031(A)	1,121	12.63
.0375	31.95	.98	12	12.10	17-4	1.25(A)	.33	30.52	316(A)	88	29.13
.4500	28.88	7.11	34	4.83	10-3	4.65	(2.69)(D)	NIL	1,515(A)	1,110	6.42
.1000	34.49	2.33	24	10.14	17-4	1.86(A)	.67	22.66	136(A)	80	11.20
.0400	51.57	4.65	48	10.25	14-3	.67	.17	31.56	137	72	13.73
1.1600	7.94	6.29	41	6.58	17-7	4.10(A)	2.61	9.45	5,716(A)	3,269	11.82
.8000	6.58	6.47	46	7.05	8-5	2.41(A)	1.60	8.54	2,396	1,122	16.39
.9250	6.71	7.47	46	6.20	28-7	2.76(A)	1.63	11.11	17,341(A)	13,101	5.77
.2150	31.33	3.93	28	7.21	45-8	2.96(A)	.87	27.75	12,582(A)	5,612	17.52
						3.26(C)		30.24(C)			
1.1600	8.70	6.90	50	7.24	37-7	3.52(A)	2.12	10.67	11,274(A)	6,936	10.20
						4.22(C)		14.76(C)			
NIL	NIL	NIL	NIL	18.90	18-8(B)	1.19(A)	.18	45.90	182(A)	31	42.48
.1212	37.70	4.21	43	10.17	14-3	1.40(A)	.56	20.11	136(A)	61	17.39
.2650	19.29	2.59	26	10.04	30-7	2.45(A)	1.45	11.06	174(A)	96	12.63
.6400	14.14	3.37	29	8.62	14-5	4.26(A)	1.50	23.22	872(A)	487	12.36
.2000	43.10	5.42	39	7.15	15-4	3.09	1.45	16.34	496	195	20.53
$ .3900	14.27%	3.41%	33%	9.59	43-7	2.32	$1.09	16.31	$ 1,295(A)	$ 642	15.07%
						$2.38(C)		16.90%(C)			

(A) Last four available quarters.
(B) Three Years Only.
(C) FIFO Figures.
(D) Deficit.

CGR = Compound Growth Rate
P/E = Price of Share divided by Previous 12-mos. earnings

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

Strategic Profit Model

	Total Sales (000,000)	Total Profit (000,000)	Total Beginning Assets (000,000)	Total Ending Assets (000,000)	Total Beginning Equity (000,000)	Total Ending Equity (000,000)	Asset Turnover	X Return on Sales (%)	= Return on Assets (%)	X Leverage Factor	= Return on Equity (%)	Number of Employees	Sales Per Employee	Profit Per Employee
	(1)	(1)	(2)	(1)	(3)	(1)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Lowe's (A)	$ 905	$ 24.9	$ 270	$ 300	$ 141	$ 159	3.35	2.76	9.22	1.92	17.66	5,804	$155,927	$4,290
Wickes (B)	1,910	34.4	643	755	203	251	2.97	1.78	5.35	3.17	16.95	16,815	113,589	2,046
Payless (A)	316	14.5	114	159	62	75	2.77	4.43	12.72	1.84	23.39	3,600	87,778	4,028
Evans (A)	1,515	62.4	641	788	243	288	2.36	4.09	9.73	2.64	25.68	18,500	81,892	3,373
Sears (B)	17,946	921.5	14,746	15,262	6,524	7,092	1.22	5.14	6.25	2.26	14.12	430,000	41,735	2,143
K mart (B)	11,696	344.7	4,489	4,836	1,650	1,920	2.61	2.94	7.66	2.72	20.83	213,347	54,821	1,611
Penney (B)	$10,845	$276.0	$ 4,346	$ 4,833	$2,118	$2,357	2.50	2.54	6.35	2.05	13.03	211,000	$ 51,398	$1,308

(Strategic Profit Model totals vary due to rounding)

Source of figures for other companies: Annual Reports

(A) Fiscal 1979 figures
(B) Fiscal 1978 figures (last complete reported year)
(1) Latest Year Ending figures

(2) Beginning Assets
(3) Beginning Shareholders' Equity
(4) Total Sales divided by Beginning Assets
(5) Total Profit divided by Total Sales
(6) Total Profit divided by Beginning Assets

(7) Beginning Assets divided by Beginning Equity
(8) Total Profits divided by Beginning Equity
(9) Year-End Total
(10) Total sales for year ÷ number of employees, to nearest $100
(11) Total Profit after taxes ÷ number of employees

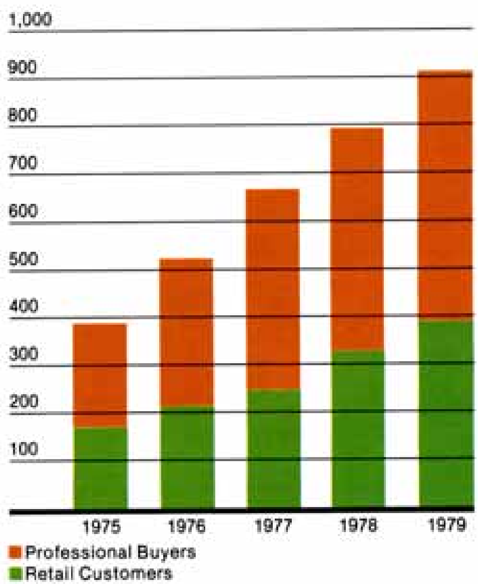
Performance Review Lowe's Is a Building Materials

What Lowe's Does

Lowe's is in one business only—we are retail marketers of building materials, to two major customer groups, through 209 stores in 19 states, principally in the South Atlantic and South Central regions. The company's life blood cells are our customers who last year numbered 11 million, an increase of a million from the previous year. The average Lowe's store recorded 54,100 transactions in the year, up from 53,900 the previous year. Average sale per customer was $82.02, an increase from the average ticket of $79.20 in Fiscal '78.

Lowe's gives primary and continuing attention to our customers' preferences and changing needs for the goods and services we supply.

Customer Purchase Trends
(Thousands of Dollars)



What Lowe's Stores Are

Lowe's stores each combine the merchandise, service, and functions of a lumber yard, a building materials supplier, an air conditioning, heating, plumbing and electrical supply center, a hardware store, an appliance and home electronics dealer, a hard goods discounter, and a professional marketing company. Merchandise items, many of which are nationally advertised brand names, are counted in stock-keeping units, which currently number 12,000. The average store stocks approximately 8,000 of these. Lowe's does not report net product profit because our stores are our true profit centers.

Customer Purchase Trends

Lowe's sells to two customer groups: professional builder buyers and retail customers. The pro buyers number about 140,000 in the 209-store area served, of whom one-third are Lowe's customers. Our 209-store marketing area serves about 10.7 million households, an average of 54,600 for each store-market area. As shown in table at right, Lowe's sales in the past four years to retail customers have been increasing each year, in line with increased company emphasis on this portion of the business. Retail and professional sales have both recorded impressive five-year compound growth rates. Emphasis continues on increasing our retail sales base without losing market share with professional customers.

Merchandise Sales Trends

All categories of Lowe's merchandise achieved substantial sales increases in the year except mobile homes which has been nearly phased out. Kitchen and home laundry achieved the greatest percentage sales gain, replacing lumber in this position. These kitchen and home laundry items were followed by home, yard and farm supplies which scored impressive gains.

Merchandise Categories:

The following are the components of Lowe's eight merchandise categories:

1. Structural lumber: Dimensional lumber, framing, studs, joists, posts, boards, and treated wood.

2. Building materials and hardware: Plywood, gypsum board, roofing, paint, paneling, doors, windows, mouldings, masonry products, insulation, siding, floor coverings, carpeting, ceilings, nails, locks, and hardware.

3. Plumbing, electrical, heating and cooling: Bath tubs, shower stalls, pumps, plumbing fixtures, cable and electrical accessories, furnaces, fireplaces, heating equipment, ventilators, central and room air conditioning.

4. Kitchen and home laundry: Refrigerators, freezers, ranges, dishwashers, disposals, microwave ovens, cabinets, counter tops, washers, dryers, and kitchen sinks.

5. House, yard, and farm supplies: Power lawn mowers, garden tillers, power tools, hand tools, storage buildings, bicycles, go-carts, housewares, giftwares, farm roofing, fencing, and barbed wire.

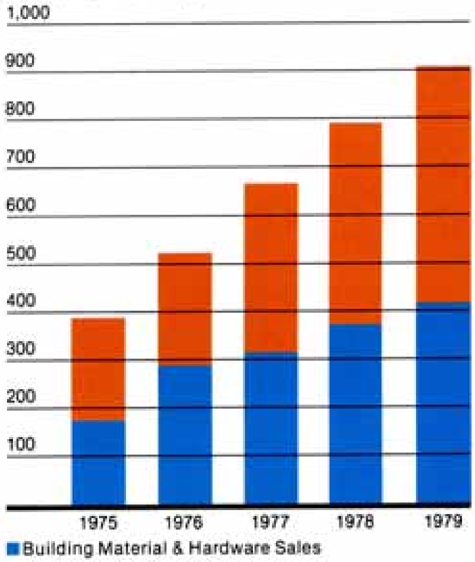
6. Home Entertainment: Color and black and white televisions, stereo components and consoles, radios, CB equipment, and tape recorders.

7. Mobile homes: Factory-built housing.

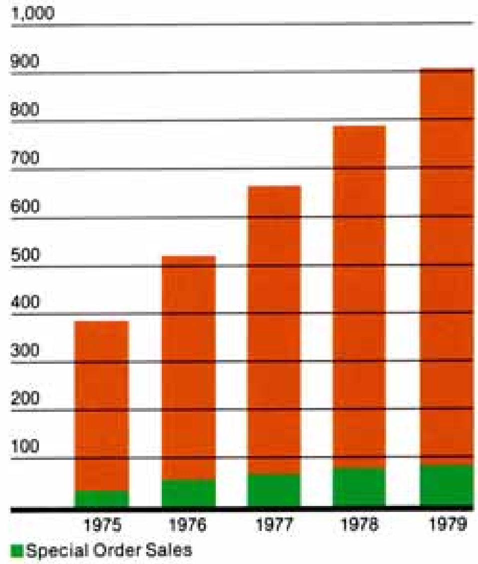
8. Special order sales: All merchandise sold by Lowe's which is not regularly stocked at a Lowe's store, but which is ordered for customers from manufacturers or local distributors.

Marketer to Professional and Retail Customers

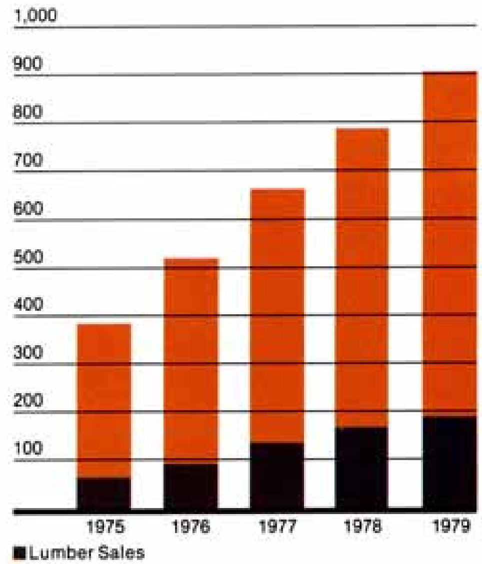
Building Materials & Hardware Sales vs Total Sales
(Thousands of Dollars)



Special Order Sales vs Total Sales
(Thousands of Dollars)



Lumber Sales vs Total Sales
(Thousands of Dollars)



Thousands of Dollars

Fiscal Years(1)	1975		1976		1977		1978		1979		
Category	**Sales**	**% of Total**	**Sales**	**% of Total**	**Sales**	**% of Total**	**Sales**	**% of Total**	**Sales**	**% of Total**	**C G R (2)**
Professional Buyers	$209,901	54	$308,457	59	$411,613	62	$468,983	59	$511,472	57	24.9%
Change(3)	+15%		+47%		+33%		+14%		+ 9%		
Retail Customers	$178,353	46	$210,938	41	$250,012	38	$324,142	41	$393,179	43	21.9%
Change(3)	+ 9%		+18%		+19%		+30%		+21%		
Totals(4)	$388,254	100	$519,395	100	$661,625	100	$793,125	100	$904,651	100	23.5%
Change(3)	+12%		+34%		+27%		+20%		+14%		

(1) Fiscal years ending January 31 of following calendar year.
(2) Compound growth rates, 1975 through 1979.
(3) Percent change from previous year.
(4) Totals may not add due to rounding.

Thousands of Dollars

Fiscal Years(1)	1975		1976		1977		1978		1979			
Category	**Sales**	**% of Total**	**Sales**	**% of Total**	**Sales**	**% of Total**	**Sales**	**% of Total**	**Sales**	**Change (2)**	**% of Total**	**C G R (3)**
1	$ 63,802	16.4	$ 98,940	19.1	$133,887	20.2	$168,067	21.2	$190,070	+ 13%	21.0	31.4%
2	180,026	46.4	239,363	46.1	312,125	47.2	371,778	46.9	415,287	+ 12%	45.9	23.2%
3	38,217	9.8	46,960	9.0	59,946	9.1	67,560	8.5	81,110	+ 20%	8.9	20.7%
4	23,692	6.1	26,787	5.2	31,827	4.8	38,659	4.9	49,394	+ 28%	5.5	20.2%
5	27,520	7.1	36,559	7.0	41,801	6.3	50,615	6.4	63,987	+ 26%	7.1	23.5%
6	11,354	2.9	14,722	2.8	14,494	2.2	17,519	2.2	19,408	+ 11%	2.2	14.3%
7	3,041	.8	3,086	.6	2,135	.3	464	n.m.	316	− 32%	n.m.	n.m.
8	40,602	10.5	52,978	10.2	65,410	9.9	78,463	9.9	85,079	+ 8%	9.4	20.3%
Totals	$388,254	100.0	$519,395	100.0	$661,625	100.0	$793,125	100.0	$904,651	+ 14%	100.0	23.5%

(1) Fiscal years ending January 31 of following calendar year
(2) Change from previous year
(3) Compound growth rates, 1975-1979
n.m. = not meaningful

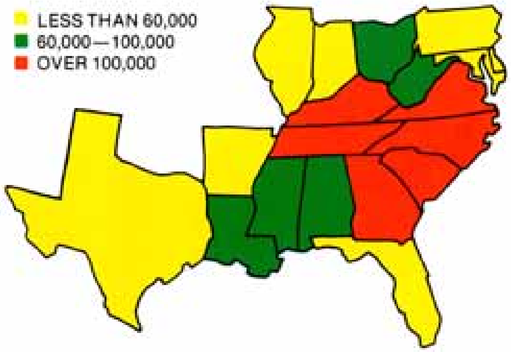
Performance Review

Lowe's Operates Retail Stores

Where Lowe's Does It

Lowe's 'Sun Belt' market areas contain many of the major growth areas of the nation—Tidewater Virginia, the Piedmont Carolinas, the Florida Sun Coasts, the Atlanta Highlands, and the Gulf Petro-Chemical Belt. Five of America's largest megalopolises are located in Lowe's Land. Most of Lowe's stores are located in the Carolinas-Virginia heartland of our area, around where we began growing back in the '50s. Today 91 stores are in these three states. Growth has been basically concentric and our store population is lightest around our perimeter states of Delaware, Maryland, Ohio, Indiana, Illinois, Arkansas and Texas, areas of great future growth potential. The density of population around the heaviest store concentrations allows new marketing thrusts, especially television.

Square Footage by State



North Carolina (51)	470,447	Mississippi (7)	73,236
Virginia (23)	212,100	Ohio (7)	61,786
Georgia (20)	184,955	Florida (6)	59,420
South Carolina (17)	137,737	Arkansas (5)	51,607
Tennessee (17)	143,426	Maryland (5)	44,750
Kentucky (10)	109,834	Pennsylvania (3)	33,300
Alabama (9)	96,761	Delaware (2)	13,100
West Virginia (9)	66,337	Texas (2)	23,250
Louisiana (8)	85,500	Illinois (1)	10,000
Indiana (7)	53,873		
19 States (209)			**1,931,419**

Lowe's Store Locations

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

VIRGINIA
Bristol
Charlottesville
Chester
Coeburn
Danville
Dublin
Fredericksburg
Harrisonburg
Leesburg
Lynchburg
Manassas
Marion
Martinsville
Newport News
Chesapeake
Richmond
Roanoke
South Boston
Staunton
Suffolk
Vienna
Winchester
Woodbridge

GEORGIA
Albany
Athens
Augusta
Brunswick
College Park
Columbus
Decatur
Doraville
Gainesville
La Grange
Macon
Marietta
Moultrie
Rome

Sales Per Square Foot

Floor Size and Productivity Performance

Larger stores built in 1979 continued to increase the average floor size at the end of the year. While any company with resources can build larger stores, it is a measure of competence in retailing to keep increasing sales per square foot and especially retail sales per square foot. Lowe's continues to believe that the more important measurement is the amount of sales per employee, as on pages 6-7.

Sales Per Store (Millions of Dollars)

Lowe's Average Store Sales Trends

	Average Stores Open During Year (1)	Pro Sales Per Average Store (000)	Retail Sales Per Average Store (000)	Total Sales Per Average Store (000)
1975	131.3	$1,599	$1,358	$2,957
1976	148.0	2,084	1,425	3,509
1977	168.3	2,446	1,485	3,931
1978	185.8	2,524	1,745	4,269
1979	202.4	$2,527	$1,943	$4,470

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

Store Sales Performance

As shown at left, sales per average store posted new highs in 1979. The table at right is a much more detailed "layering" of store growth trends. In reviewing the superior sales per store of the 1974 and 1978 models along with their age, one fact leaps out—34 of the 40 are standard stores built for the function. The majority of the 1975, 1976, and 1977 models are non-standard takeovers, smaller, and eventual candidates for replacement.

in Growing 'Sun Belt' Markets

Savannah
Smyrna
Thomasville
Thomson
Valdosta
Warner Robbins

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

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

KENTUCKY
Corbin
Danville
Elizabethtown
Frankfort
Lexington
Louisville
Richmond
Paducah
Paintsville
Pikeville

ALABAMA
Auburn
Dothan
Gadsden
Huntsville
Mobile
Montgomery
Muscle Shoals
Prattville
Tuscaloosa

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

LOUISIANA
Alexandria
Baton Rouge
Lafayette
Lake Charles
Leesville
Natchitoches
Shreveport
West Monroe

INDIANA
Clarksville
Franklin
Indianapolis
Indianapolis-West
Lawrence
New Castle
Westfield

MISSISSIPPI
Greenville
Greenwood
Gulfport
Hattiesburg
Jackson
Meridian
Tupelo

OHIO
Athens
Belpre
Cincinnati
Circleville
Lancaster
Springfield
Wheelersburg

FLORIDA
Gainesville
Inverness
Maitland
Orlando
Pensacola
Tallahassee

ARKANSAS
El Dorado
Jonesboro
Little Rock
Pine Bluff
West Memphis

MARYLAND
Cumberland
Easton
Frederick
Hagerstown
Salisbury

PENNSYLVANIA
Hanover
Lancaster
York

DELAWARE
Dover
Wilmington

TEXAS
Longview
Texarkana

ILLINOIS
Marion

Square Footage by Demi-Decade

1959 AND BEFORE	
Stores opened	16
Stores closed	1
Stores net	15
Square footage opened	74,880
Square footage closed	3,200
Square footage during this period	71,680

1960 — 1964	
Stores opened	14
Stores closed	0
Stores net	14
Stores to date	29
Square footage opened	73,950
Square footage during this period	73,950
Square footage to date	145,630

1965 — 1969	
Stores opened	35
Stores closed	2
Stores net	33
Stores to date	62
Square footage opened	207,084
Square footage closed	7,950
Square footage during this period	199,134
Square footage to date	344,764

1970 — 1974	
Stores opened	63
Stores closed	1
Stores net	62
Stores to date	124
Square footage opened	774,152
Square footage closed	4,200
Square footage during this period	769,952
Square footage to date	1,114,716

1975 — 1979	
Stores opened	90
Stores closed	5
Stores net	85
Stores to date	209
Square footage opened	872,392
Square footage closed	55,689
Square footage during this period	816,703
Square footage to date	1,931,419

	1 Stores Open at End of Year	2 Weighted Average Stores Open During Year(1)	3 Total Sales Floor Square Footage End of Year	4 Average Sales Floor Size End of Year	5 Weighted Average Sales Floor Square Footage During Year(2)	6 Total Sales (000)	7 Retail Sales (000)	8 Total Sales Per Square Foot(3)	9 Retail Sales Per Square Foot(4)
1975	141	131.3	1,281,000	9,085	1,192,861	$388,254	$178,353	$325	$150
1976	154	148.0	1,383,000	8,981	1,329,188	519,395	210,938	391	159
1977	180	168.3	1,619,000	8,994	1,513,690	661,625	250,012	437	165
1978	199	185.8	1,817,000	9,130	1,696,354	793,125	324,142	468	191
1979	209	202.4	1,931,419	9,241	1,870,378	$904,651	$393,179	$484	$210

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

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

	Fiscal 1975		Fiscal 1976		Fiscal 1977		Fiscal 1978		Fiscal 1979		
Stores	**Total Sales**	**Sales Per Store**	**Total Sales**	**Sales Per Store**	**Total Sales**	**Sales Per Store**	**Total Sales**	**Sales Per Store**	**Total Sales**	**Sales Per Store**	**C G R (2)**
105 Established Stores (1)	$330,359	$3,146	$408,539	$3,891	$485,262	$4,622	$532,674	$5,122	$561,476	$5,399	14.5%
20—1974 Stores	45,011	2,251	63,717	3,186	76,911	3,846	91,282	4,564	96,211	4,810	20.9%
16—1975 Stores	12,884	805	32,196	2,012	39,524	2,470	48,139	3,008	53,853	3,366	18.7%
13—1976 Stores			14,943	1,149	30,716	2,363	36,257	2,789	39,454	3,035	13.3%
27—1977 Stores					29,212	1,082	68,988	2,555	80,213	3,085	20.7%
20—1978 Stores							15,785	789	62,449	3,286	
13—1979 Stores									10,995	846	
Totals: Sales	$388,254	$2,754	$519,395	$3,373	$661,625	$3,655	$793,125	$3,965	$904,651	$4,267	
Number of Stores	141		154		181(1)		200(1)		212(1)		

(1) Established Stores are stores which have been open for one year or more. One of the 105 stores was closed in December, 1977, therefore, the pre-1974 Established Store number was reduced to 104 for the Fiscal 1978 and 1979 computations. A 1977 store was closed in December of 1978 reducing the 1977 Stores number to 26 for Fiscal 1979 computations. Three 1977 stores were closed in Fiscal 1979; one in May, one in September and another in January and they will affect next year's 1977 stores computations. We ended Fiscal 1978 with 199 stores and Fiscal 1979 with 209.

(2) Annual average Compound Growth Rates through 1979, from 1975 for the 105 (104) Established Stores. Rates for the 1974 New Stores were computed from their 1975 (first full year) results, the 1975 New Stores from 1976, and the 1976 New Stores from 1977, 1977 New Stores from 1978, all through 1979 results.

Motivation-the Fuel Supply of Productivity

When asked, as he often is, to name Lowe's most important asset, Chairman of the Board Robert L. Strickland invariably replies, "Lowe's people! Without their exceptional spirit and enthusiasm, Lowe's would be a very different company."

But, exactly what is it that makes Lowe's employees such a vital part of the company? Where do they get their motivation? It comes from a number of sources, but the one of most long range significance is Lowe's ESOP.

What *is* an ESOP? It's an Employee Stock Ownership Plan, a means for employees to participate in the ownership of the company for which they work.

Lowe's ESOP was adopted on January 1, 1978, to replace the company's Profit-Sharing Plan.

By 1977, the Profit-Sharing Plan was not keeping up with the growth and needs of the company and the employees. One of its drawbacks was that an employee had to leave the company in order to gain any monetary benefit from his stock ownership. And, not surprisingly, many managerial people were doing just that, retiring long before they normally would have. Another drawback was that employee shareholders were not treated in the same manner as were other shareholders because they could not individually vote their stock. Most importantly, the percentage of employee stock ownership was dwindling, since the Trust was not actively buying stock. Rather, it was dividing an ever-decreasing amount of stock by an ever-increasing number of employees. As employees retired, taking with them their share of cash and stock, the amount of stock left in the Trust was continually diminishing. Employee ownership had declined from about 48% in 1962 to about 17% in 1977.

When the Profit-Sharing Trust was frozen, members were given the option of receiving cash dividends from their profit-sharing stock and other income annually. Since that time, the managerial turnover rate has dropped drastically. And, under the Employee Stock Ownership Plan, employees can vote their stock and do.

In creating the ESOP, the Board of Directors decided against requiring matching funds from the employee, as do some ESOP companies. Subsequently, the Board has annually fixed the contribution rate at 15% of eligible compensation per year, the maximum allowed by law. This percentage is not fixed permanently, but it is subject to Board discretion.

Tom Sheppard, director of Lowe's Leadership School.

At the present time, there is another—though not well-known—benefit to being a member of Lowe's Employee Stock Ownership Plan. Under the ESOP, Lowe's employees are investors. And to be a successful long-term investor, one must "buy right," that is, buy stock for the least amount possible.

To many Lowe's employees, the present low price-earnings multiple of Lowe's stock represents a significant investment opportunity. For example, a $3,200 ESOP contribution will buy 200 shares at $16.00, rather than only 100 at a price of $32.00 per share, which existed four years ago. Since these employees have chosen to invest their careers in Lowe's, it's not surprising that they would take this enlightened long-term view of stock investment. Obviously, some shareholders who already own stock and intend to sell short-term would prefer a higher price. But, to those whose main concern is long-range growth in earnings and dividends that they have enjoyed in the past, temporary dips in price are viewed in the broader context of a drastically depressed market which will turn at some point in the future. So, there is a degree of common interest between the employee who invests both money and career in Lowe's and the non-employee shareholder who invests money alone. Both groups are building for their futures.

At the end of Fiscal 1979, the Employee Stock Ownership Plan was the sixth largest holder of Lowe's stock. The Profit-Sharing Trust was still in first place. Employees now own 20.5% of Lowe's Companies, Inc., which is a direct reversal of the declining employee ownership trend of the past few years. Every employee should soon see the significance of this turnaround and the very real possibility of employee ownership of 51% of Lowe's in the future. As a motivational force what could be more important? As Personnel Director Ed Spears says, "Lowe's has always had a commitment to employee ownership. The ESOP is just a more dramatic confirmation of this commitment."

The ESOP is a motivational force for *all* Lowe's employees. But, as in most companies, the sales force needs additional motivation. At Lowe's that motivation is provided by the knowledge that every Lowe's salesperson is a potential Lowe's store manager. He invests the necessary time. The training comes at the store level and at Leadership School.

Originally, the Training School was only a once-a-year meeting for salesmen. As Lowe's began to grow rapidly, the problem of finding management material conceivably could have reached crisis proportions. In the summer of 1976, Rod Morrow, then vice president of corporate development, proposed a new training program for store personnel. Its purpose was to insure that all salespeople receive training in sales techniques, customer relations, proper attitudes, and product knowledge . . . that all management personnel are properly trained to lead their stores to beat the competition and to achieve their sales goals . . . and, of course, that each store continue as a profitable operation.

At its inception, the Leadership School consisted of three major programs. The first was sales training for the new employee, teaching him sales techniques and basic product knowledge. The second was advanced product training for the more experienced salesperson, teaching him to read blueprints and to do material take-offs for the professional builders. The third program was intensive training for the prospective store manager. Since that time, the curriculum has been expanded to include programs for warehouse, credit, and office managers, consumer and master sales managers, and—most recently—a special secretarial session.

Wayne Matherly, assistant manager of the North Wilkesboro store, with the new incentive catalog.

The School, begun under Charles Taylor and continued under Tom Shepherd, the present training director, has been received with great enthusiasm by both management and school participants. Comments from students have ranged everywhere from "exciting!" to "I feel more secure in my own ability now" to "I feel like I can go out and take on the world!" Now *that's* motivation.

No story of motivation at Lowe's could be complete without the name of Managing Director John A. Walker. For years, Lowe's people have been inspired by his vision for the company's growth and his imaginative sales incentive programs. A new incentive program for 1980 has begun to spur Lowe's salespeople on to even bigger and better targets. In many sales contests with only five or ten top prize winners, the same salespeople may seem to win over and over. And the guy who comes in 6th or 11th—even though he does very well—receives no reward. To overcome this, Jim Lyall, of the Merchandising Department, designed an incentive program for every salesperson in every store. Individual contests on individual items are still held, but now a certain number of points are given for each item sold in each contest, rather than just five big prizes to five winners. These points are cumulative and can be redeemed for quality merchandise and travel in the incentive program catalog. There are new contests each month, but the points earned in each go to the same total. Audio-visual presentations in each store explain the program to the entire sales force. With an incentive program like this, there are no contest losers, only winners, making it a major motivational force.

With people and programs like these, it's easy to see what gives Lowe's people their special enthusiasm and makes them Lowe's greatest asset.

Dick Griffin, vice president of retail sales.

Smoothing the Bumps-Managing the Cycles

Cyclical downturns occur in the housing business with sufficient regularity to allow for planning to combat their effects on sales and profitability. Lowe's vulnerability to the cyclical nature of its business has long been recognized by management, employees, outside shareholders, and financial analysts. Simultaneously, the cyclical opportunities for growth in sales and earnings during the upswings have been recognized.

Lowe's has enhanced its retail business to modify the negative effect of cycles, to smooth out the bumps, to minimize the economic vertigo of down spirals by making it a source of continuing strength. It has intensified its drive for retail business. Already, significant increases in retail have been recorded by Lowe's in each of the past two years over the previous year. In 1979, retail grew to 43.5% of the total of Lowe's business over the 40.9% recorded in 1978 and the 37.9% attained in 1977.

Not only has Lowe's been striving to smooth the economic cycles, it has been managing the seasonality of its retail business and deepening penetration geographically.

In 1978, Lowe's retail business increased 15% in the Spring, 28.7% in the Summer, 38.8% in the Fall and 34.9% in the Winter-Christmas season. Similar advances were made in 1979 with gains posted of 22.8% in Spring, 19.8% in Summer, 24.6% in Fall and 16.8% in Winter-Christmas. Concurrently in 1979, stores in the northwestern part of Lowe's Land increased retail 36%, while along the Gulf the increase was 32%, in the South Atlantic it was up 13% and in the Middle Atlantic states it grew by 15%. Part of the Northwest and Gulf increases was due to new store openings, but even among established stores, retail has shown marked increases.

Lowe's recognized this proven stability in the retail home-improvement market could inject year-to-year equilibrium into our total growth picture, providing a firm base for expansion in the '80s as well as tremendous profit potential. The decision was made to aggressively seek an increase in the percentage of Lowe's retail business—aiming for a 50-50 mix of retail and professional builder sales.

Due to aggressive marketing, merchandising, and sales efforts, the results to date have been excellent. In fact, our retail volume last year surpassed Lowe's total sales volume in 1975. "I'm gratified that we are at the point we are today," says Richard D. Griffin, vice president of retail

Of Rusting Dreams and True Wealth

"I think Lowe's is a dynamic company and to paraphrase a point made by the Chairman of the Board of the Company, I concur with him wholeheartedly: the home will be in the '80s what General Motors and the car industry was of the '40s, '50s, and '60s. This is where the dynamics are and having recognized that, they would be remiss not to make more of an effort." *—Bruce R. Grier, Morgan Guaranty Trust Company, quoted in The Wall Street Transcript Roundtable,* November 19, 1979.*

While we weren't looking, the American Dream has been restructured, modified; never again to be the same. And while it will never again be the same, it is not all that different from the dream of the past. The modification has been to return us to a vision we previously held. The American's love affair with the car is over. The land cruiser, the yacht of the highway, the chrome palace with bucket seats, the thrilling speedster has been eclipsed, overcome by the dynamics of history, of geopolitics and geoeconomics.

The golden age of Detroit has rusted out.

That subject of songs and novels, poetry and psalms, the home, that one bright, warm place we all know so well, is back in first place. Our focus, our attention, has shifted back after a 40-year absence.

It was inevitable that the American Dream would be modified and restructured. The great ages of American expansion required mobility but that mobility assumed successively different forms. The walker became the man on horseback. The horse pulled the wagon and the prairie schooner and man climbed aboard. The horse was replaced by one of iron and the train became the conveyance of people and products. The products hauled by train allowed the airplane and the automobile to be manufactured, economically. The technology of mobility allowed diversity, and that diversity led to economic competition. The great parade of automobile manufacturers began, grew large in numbers and then ebbed to a handful. As distances were diminished by mobility so competition grew by diminished costs. The steel of Pittsburgh, Gary and Birmingham flowed beyond the converters of Detroit into hundreds of cities. And, as the costs of labor in the hundreds of cities increased to Detroit-like levels, the costs of the products were made less competitive with the output of labor in other lands when that output was shipped inexpensively across oceans. Competition forced acceptance. Acceptance forced American modification. The car of Detroit changed, modified by social forces some of which are rightly classified as government-required but are nonetheless social.

But it is the attitude toward the car which has changed, and most of this has occurred because of the social structure erected by mobility. As the community and the nation have been made smaller by mobility, the world has been made smaller by technology—television and other forms of telecommunication—and by money and other instruments of wealth. The increase in the number of independent nations in the world has brought a greater dependence by each of these nations upon the others. The economic forces of the decades of the '40s, '50s, and '60s brought an end to the regional differentials in wages, and an end to the economic prejudice against regions. Radio and national magazines played major socio-economic roles in this movement. The West bloomed, including the deserts; the South bloomed, including the backwoods. The nation became one nation, not a conglomerate of many diverse and disparate sections and regions. Media philosopher Marshall McLuhan identified the changes. Television, he taught us, made a family experience the same things simultaneously, whether it was the escapades of Laverne and Shirley or the deaths of our sons and brothers in Vietnam or the kidnapping of our embassy personnel in Teheran.

And just as we, in each community, state, and region became aware of and participated in common experiences, those who live in other nations now share those similar bonds with us. The individuals in London, Teheran, Tel Aviv, and Tokyo are part of the same global community of instant communication as those in Louisville, Tacoma, Thomasville, and Tampa.

The great boom in the South occurred when individuals found they could afford homes and living experiences like they had dreamed of. The economics allowed the good life to be built where they were without migration Northward. And indeed, the migration

sales. "There's no one key to our success. We're improving on many fronts."

Merchandising, for example. A couple of years ago, Lowe's buyers, marketing managers, and warehousing and delivery personnel all reported to different department managements. There was no single coordination of efforts of all these people to achieve the task they all shared: supplying Lowe's stores with the right merchandise at the right price at the right time.

After extensive reorganization, Lowe's entire merchandising operation is now supervised by one man, Executive Vice President Ross Burgess. With more than 20 years experience in Lowe's merchandising operation, he has directed a remarkable turnaround in product service to our stores.

One of Burgess's first steps was to require that every merchandise manager periodically work in a Lowe's store during a promotional or advertising campaign to see how the merchandise was displayed, priced and sold—and whether there was enough merchandise in stock to support the promotion. This first-hand experience with store personnel and their problems has resulted in better communication and improved teamwork—two necessary ingredients for successful retail growth.

Improvements have also been made on the store level to boost retail sales. For example, every Lowe's store has two separate sales departments—one selling to building contractors and the other selling to retail customers. While the store manager supervises the overall operation of both areas of the store, there is a continuing need for close, moment-to-moment supervision of each department to assure crisp merchandising and aggressive salesmanship.

As a result, each store's organizational structure now includes a "pro sales manager" (responsible for builder sales) and a "master sales manager" (responsible for retail sales). Both of these people report directly to the store manager, who allows them considerable license in handling their respective areas.

As prime mover of Lowe's in-store retail effort, the master sales manager must be a jack-of-all-trades to be master of one. He and his staff maintain the merchandise inventory, display it, price it and promote it. Working closely with the store manager, the master sales manager develops local ads and promotions to create excitement and bring retail customers through the door.

Dick Griffin reiterates a major goal of the master sales manager: "We want a customer 'happening' on every weekend at Lowe's to emphasize family shopping." And there usually is. From "tent sales" to a variety of local contests, the master sales manager keeps things happening in a broad range of merchandise categories, with a seasonal approach being the most frequent course of action.

Larry Matthews, master sales manager

began to flow the other way, to the South and to the West.

First came the knowledge of or the structuring of the dream. Then came the realization that the dream was achievable, the economic awareness and consequences.

Precisely the same thing has occurred throughout the Global Village, to use McLuhan's phrase. The world has come together with the rising expectations and the awareness that the economics are in place to achieve the dream.

It was at that point that the death knell was sounded for the love affair with the automobile which had so long mesmerized America. The first Arab oil boycott in 1974 was the day to remember. The biblical moving finger, which Daniel saw, wrote the future for all who had the eyes to see. The message was one which could not long be ignored. The present onrush of near-cataclysmic events is but a repetition of the same message.

The message is singular; the ramifications are multitudinous.

The age of generosity is over. You must pay for what you get. Indeed, you must pay more for what you get, which is less than what you've been getting. And just as the nations of raw mineral plenty are hiking the prices today, so too the day will come when the nations of technological plenty will increase prices for their valuables, along with those with cornucopias of agricultural plenty. But that time is not yet upon us.

Mobility has done it. First it was the mobility that took us from here to there faster, and then faster and easier. Then it was the mobility that allowed us to go without leaving, the mobility not of car, plane, train or ship, but the mobility of radio and newspapers and then of television. Today it is possible to travel the route of Columbus in the same number of hours as it took him in months. That's real mobility. But it is also possible to be in the presence of the Ayatollah Khomeini instantly, in real time, without having to make the trip at all.

The mobility which has made us one nation has made us also a single world. Accompanying that same mobility is national and global inflation, a menacing, degenerative force which has the power to impoverish. It certainly has accomplished the redistribution of wealth by invalidating conventional forms of value. New forms of value, immune from monetary monopolies of governments, are being sought daily to protect true wealth. Those currencies which are not debased still represent wealth, but it takes a quick trader with near-limitless resources to protect his wealth with these. Precious metals and gems have become agencies of wealth, whose portability and mobility have been recognized since the earliest ages. The wealth represented by a trained mind or a good education is another wealth vehicle, one long recognized in this nation. The wealth of a good company, in a good business offering a good service, is a vehicle of wealth. And the home, located in an area of general political stability, is another form of wealth and value.

The American has found that his car goes down in value each year. It is more costly to purchase, it is more costly to maintain and is smaller. No longer is it pleasurable to drive it to a distant place for recreational shopping because it is too expensive. No longer is it pleasurable to drive it to a vacation site because the place of relaxation or excitement may be too expensive to enjoy. Automobility has become that have-to-do thing just to get to the job, to the grocery, to the medical service.

Today, the home is where it's at; where it's all at.

The home offers us not only shelter, and that is still the basic. It offers us the place where we can be with those we most love and those we most trust and it is good to be among those we trust. The home offers us all we want and need in recreation and vacation. That spider web created by the American swinging off down a maze of roads and freeways to ever more distant points is covered with dust. The cocoon, carefully woven with love and care out of the best materials is bright, shiny and warm, offering what we want and what we need.

The home. From the biblical "In my Father's house. . ." to "Home Sweet. . ." to "Going home. . ." to "Homecoming."

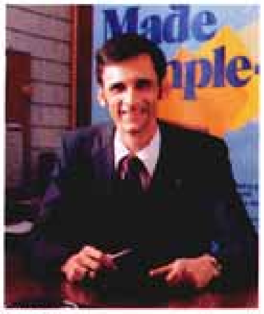
The home. It's where America lives. And it's what Americans are spending their money on, and their work for. It is the wealth of Americans.

—Bill Brantley

in one of the Winston-Salem, N.C., stores remembers one promotion in particular. It was a tie-in with stock car racing superstar Richard Petty, who endorses Lowe's power lawn and garden line and is extremely popular in the South. "We brought in Petty's race car and put it on display with our riding mowers and push mowers. Over 2,000 people came by during a three-day period, and a lot of them bought our mowers. It was a super promotion."

While the master sales managers battle on the front line to attract new customers and bigger sales, they are supported in their cause by Lowe's centralized advertising—created and produced by Lowe's award-winning in-house agency, Sterling Advertising, Ltd.

As a new service, Sterling now publishes and distributes to all stores a monthly "Preview" of upcoming ads, promotions and campaigns in various media. Included with each "Preview" are ad slicks, sample tabloids, radio tapes, TV storyboards, mini-billboards and point of purchase materials — all intended to inform and involve the store personnel in the centralized advertising effort.



Bill Grady, manager of retail credit.

Those are some of the fronts we've improved on, and they've all had an important impact on Lowe's growth in retail sales. But what about the future? What's in the works as Lowe's heads into the '80s?

February of this year saw the beginning of two major new programs, both designed with retail in mind.

One of these is a new sales motivation program for store employees (see separate story in this Report). In the past, sales contests were one-shot affairs with a decidedly winner-take-all flavor. The result was often one or two very happy winners and many more unhappy "losers" who had done a fine job, but hadn't "placed."

The other new program is the re-design of Lowe's in-store layout and graphics for today's retail shoppers. This exciting project is also fully detailed in another article in this Report.

Retail at Lowe's is flexing its muscles, discovering its abilities and setting out to make its mark on the world. The extent to which it succeeds depends upon the creative management and execution of Lowe's ongoing self-improvement.

As Dick Griffin puts it, "Today's consumer is more sophisticated and knowledgeable toward retailing than ever before. Our challenge, then, is to continually upgrade and improve our merchandising and sales effort to keep pace with our customers. If we ever get to the place that we feel we've solved all our problems, we'll be left behind."

A Power Tool to Help Build Retail Sales

The first thing you notice about this new Lowe's power tool is that there's no electric cord although there *is* a string attached. To receive one of these new Lowe's power tools, you have to fill out an application.

And while that sounds like a lot of bother for just a tool, more than 75,000 people thought it was worth the effort in the last eight months of 1979. They were getting something much more valuable than a quarter-inch drill or a circular saw. They were getting their new Lowe's Credit Card. And 120 volts can't touch the buying power it delivers.

Fact: More and more homeowners are deciding to improve their present homes rather than take on a high-interest new-home mortgage. (They have found themselves living in a more expensive home in a more expensive neighborhood—without moving. Inflation has provided equity for major—and minor— renovation and additions.)

Fact: Lowe's offers consumers a new source of credit to help them make needed and wanted improvements—not a credit card that will buy dinner for two at a chic Parisian restaurant (somewhat impractical for the American homeowner), but one that will serve a very practical purpose and, in many cases, actually provide a return on investment in the form of increased home value (something very practical for the value-seeking homeowner).

Advantage: The Lowe's Credit Card has a higher "floor limit" than the big two bank cards, MasterCard or Visa, which means that customers can buy larger-ticket merchandise without having to wait while the salesperson calls for authorization. This results in faster, more convenient shopping for many of the day-to-day items that home improvers need.

Advantage: The Lowe's Credit Card generally has higher credit limits than bank cards or private-label cards offered by other retailers. As a result, a customer with a Lowe's Card can walk into our stores and buy a large-ticket item (such as a refrigerator or wood-burning stove or parquet flooring) and not have to endure a long wait while his credit limit is extended to accommodate the purchase.

Intoduced in late May 1979 with an extensive advertising campaign and in-store promotion, "The Handy Card for Handy People" experienced phenomenal growth through the remainder of the Fiscal 1979, amassing $21.5 million in retail sales.

We hasten to point out that this new-found source of profitable sales hasn't grown at the expense of our bank card sales, either. Lowe's achieved $29 million in bank card sales in 1979, an increase of 24% over the previous year. And sales from the new Credit Card have been across all our merchandise categories, with an expected enhancement of appliance and electronic entertainment sales.

The future? In 1980, Lowe's is aiming for 200,000 cardholders and $40 million in Lowe's Credit Card sales (with total financed sales for 1980 projected at $75 million).

The most exciting thing about our new power tool is the fact that . . . it's rechargeable.

Marketing Services of Sterling Quality

Take one advertising dollar and turn it into $30 in cash sales. That's the very bottom line in advertising at Lowe's in 1979. That's the end result of every ad dollar spent in millions of inches of newspaper advertising, hours of TV and radio commercials, thousands of square feet of billboards, and truckloads of catalogs. When the final register rang the final sale in January, eleven million customers had invested $393,000,000 in retail goods. Those people first had to invest their trust and confidence in our public word: advertising.

Those are the numbers. For our readers who are only interested in the results, we put them up front and you may stop here. For those of you who are interested in the really exciting story behind the figures—and would like a glimpse of what the future may hold—read on.

When management of the company was reorganized in late 1978, advertising was brought under the umbrella of the newly-created Marketing Services Department, headed by Mike Brown, senior vice president and a 20-year Lowe's veteran. It was his duty to bring together the related functions of sales promotion, in-store display, advertising planning, budgeting, creative planning, and production. Conceptually it was a task of textbook simplicity; in practice it was an immense task of weeding out overlapping work, designing new lines of communication, reassigning responsibilities, and preserving of competitive and somewhat sensitive egos.

While Lowe's advertising has a tradition of pace-setting and success, the same growth challenges which prompted the company's reorganization affected advertising and the company's expectations for it. The bringing of various functions, including advertising, under the Marketing Services banner, evolved with the reorganization, and Lowe's with its increased emphasis on retail business, benefited from the unified department.

Mike Brown, senior vice president and director of marketing services.

H. C. Poythress, manager of Sterling Advertising, Winston-Salem office, and with an award-winning Lowe's billboard.

An energetic pool of talented and resourceful people make Marketing Services one of Lowe's strongest and most responsive departments. Among the major programs they contributed to during 1979 are:

New Store Design: Beginning on Page 24 is an account of Lowe's new Standard 80 Store, a retail-oriented design which is the product of the efforts by the Miller/Zell Company, design consultant Steve Herman, Lowe's store design staff, and directed and supervised by Marketing Services.

Television Advertising: Once considered the province of the national advertiser, TV has been growing rapidly as a medium of retail advertising in recent years. Yet Lowe's televi-

An Annual Reportfolio-UpScale Living

As the new home rises from its foundation, the family investing in its future consults with the builder to determine or settle many things about the home. Part of the pleasure of investing in a home comes from achieving a high level of comfort about the way the home is built. This one, of materials purchased from Lowe's from the foundation to completion, will bring a dream to reality.


10/36
dynamark
GASOLINE
Scotts
Turf Builder
PLAY

Inside as well as out, Lowe's provides what it takes to live the way today's family wants to live. Literally everything except furniture and accent items comes from Lowe's stores or by Lowe's special order in these four rooms. The family room, the heart of today's home, can be as warm and stylish as you desire by shopping at Lowe's, where Lowe's Low Prices are in effect every day.

The convenience of today's kitchen makes it the most important room in the home to the one person who spends the most time there—whether that is the man, the woman, or the children. Far removed from what once was standard, today's kitchen is a place of enjoyment as well as fulfillment. Elegance once reserved for the more formal rooms of the home can be brought into the kitchen.

Upscale living comes to today's bath/grooming/dressing room with high-style fixtures and decor. From severely plain and functional to something as dramatic as this is possible to accomplish using Lowe's products. This area today can be a precise reflection of the tastes of the individuals who enjoy their own surroundings and who appreciate those good things they can afford.

From the occasional do-it-yourselfer and Saturday's reluctant handyman to the ardent home improver who accomplishes miracles routinely, Lowe's is the place to outfit and equip the home workshop. As the kitchen has been invaded by the man of the house, today's workshop is sometimes the province of the woman of the house who, with Lowe's products and advice, can achieve major feats.

The dream acquired, in place, lived in. Lowe's continues to provide the home owner with needs to keep your most important investment the showplace your pride insists on it being. At Lowe's we do not believe that beauty is only skin-deep, but we do recognize that keeping the exterior is important and the best way is with quality products.

sion advertising budgets had been relatively flat. In 1979 the television budget was doubled over the previous year. Lowe's house advertising agency, Sterling Advertising, was given a larger production budget in order to turn out better commercials. A media department also was created within Sterling and staffed with specialists in buying and scheduling advertising. Initially their responsibility is to develop effective broadcast plans, but eventually their work will extend into all advertising media.

Television demonstrated its strength as an advertising medium in a trial program in Georgia last year. Working in cooperation with Charles Dancy, district sales manager and the store managers, Marketing Services produced a TV campaign which ran from June through November involving 13 stores. At the end of the six-month program these stores had doubled the company average in percentage increase in retail sales and tripled the company average increase in customer count over the same period the previous year.

Homesteads were featured in a small TV campaign late in the year. Again, the results were dramatic. These commercials featured a toll-free telephone number and offered customers a free Homestead catalog. The goal was 2,000 responses; more than 7,000 calls came in.

Not all our TV was this successful, but television is rapidly maturing and is beginning to be a more important part of Lowe's advertising mix. The TV budget was doubled again for 1980.

Advertising Training: For the first time in Lowe's history an organized advertising training program for store personnel was conducted by Marketing Services. A series of seminars were set up through Lowe's Leadership School and were attended by all Master Sales Managers. As retail sales grow, this program inevitably will pay long-term benefits.

Catalogs: The company's catalog program was re-directed this year. Previously, most of our catalogs had been compiled to serve two purposes: as consumer information guides and as product references for salespeople. These functions have been separated into two fundamental publications. One is a desk-top Sales Reference Manual which contains item identification, pricing and basic selling information. The other is Lowe's Shoppers' Guide which is an illustrated catalog of Lowe's merchandise.


Henry Church, manager of Sterling Advertising, North Wilkesboro office; Nancy Foster, manager, Sterling media department; Mike Willis, manager of broadcast media; receive national award for best air-conditioning TV commercial from Allen Swink, merchandising manager, on behalf of General Electric.

Advertising Planning: Late last year the combined forces of Sterling Advertising's three offices were put to the task of drawing up a year-long advertising plan for 1980. Advertising themes and campaign ideas were presented in an open forum and concepts were criticized, enhanced, thrown out, taken apart and put back together. The result was a calendar of advertising and promotions which will tie all media together in a unified effort.

Lowe's is heading into 1980 with a new musical jingle featuring our slogan: "Lowe's, Your Household Word." Our advertising arsenal will include several campaigns that have worked well in the past; it will also be armed with a host of bright, new themes like the "Value Detective," a character who's a dead ringer for TV's Columbo and an animated commercial on our new credit card, "The Handy Card for Handy People."

We're looking forward to rewriting the advertising record books in 1980.

Standard 80 Stores--Improving on the Best

Never a question of leaving well enough alone or if it's working don't fix it, Lowe's has an unwritten but on-going policy of refining our store design, of enhancing the best to improve sales. While that policy has led successively from Mr. L. S. Lowe's hardware store on C Street in North Wilkesboro to the successful stores of today, since 1976 an intensified effort has been made to fashion Lowe's stores into an overtly retail-oriented operation.

The Marietta, Ga., store, begun in 1976 was the laboratory store for Lowe's to try new ideas in a new layout with upscale styling and merchandising. The overall impression of that store was one of both spaciousness, and increased product assortments. Gondolas were lowered so the customer could get some idea of what was around the corner and down the aisle and so he wouldn't feel hemmed in. Bold new graphics identified and guided. Wood was brought out of the warehouse and displayed.

The home decor area of the new North Charlotte store.

Doors and windows were displayed in installations so they could be opened and closed and raised and lowered. Walls were papered and lighting fixtures hung. It was an improvement.

Two years later, all of the lessons of Marietta were pulled together, along with input from marketing research focus groups, and brought to bear on plans for the new North Wilkesboro store. That flagship store became the new testing and demonstration lab for the future. Stores built in the year following its opening followed the patterns set there, providing customers with an inviting atmosphere for shopping, enticing them to spend more time and, hopefully, more money. Wood products were better merchandised. Good graphics became better graphics. A central service desk to handle sales and provide information was established to the delight of shoppers. Lowe's more than ever before was courting the high-margin retail shopper, while providing better but separated service for its builder customers.

Vernon McGimsey, regional vice president of Lowe's, at right, and Ronnie Hunter, store manager, in front of the new North Charlotte store.

Then serendipity intervened. A printer of in-store graphics, signs, banners and the like, inquired if it could help Lowe's. The offer of help was coupled with the counsel of a consultant in retail operations. Acceptance of the offer and the subsequent study and recommendations provided a unique reorientation to the quest for the ideal store layout and look.

Recommendations were disarmingly simple. Look, the consultant said, you have two groups of customers—women who make the decisions about one kind of merchandise that goes into the home and men who make the decisions about another kind. Arrange your stores so that you make the store inviting for each group to shop there. Put the things together that she shops for and put the other things together that he shops for. Create a loop traffic pattern to make sure they both go through the total store before escaping. Brighten your look with more and better graphics to create an invitation to shop. Open up your warehouse so that you can sell more of what's back there that the customer never sees.

When the new North Charlotte store opened on January 31, 1980, the last day of the fiscal year, using these recommendations made by Miller/Zell, Inc., of Atlanta, and Steve Herman, of Boston, the Miller/Zell consultant, the Lowe's store of the future was created.

All new built-to-Lowe's-specification stores will have the North Charlotte look and approximately 80 older standard stores are candidates for retrofitting with "the Miller/Zell package," the improved graphics, new departmental adjacencies, loop traffic pattern, and open warehouse for Wood World. The existing store in Morganton, N.C., is the first candidate for retrofitting and, by year end, perhaps as many as a dozen will have this face-lifting as an economical means of improving the Lowe's shopping experience.

At North Charlotte, the initial sales figures are dramatic and gratifying, with the store off to one of the best starts any Lowe's store has ever experienced, especially in view of current economic conditions.

Entering North Charlotte today, the customer is drawn through the correct door (the exit door will not open inward) into a deep-U traffic pattern, first along the fashion side of the store where merchandise is attractively and appropriately displayed. Significantly, this is the area displaying merchandise with the greatest profit margins. The drama and excitement there for the woman shopper has to be seen to be believed, however, the photographic portfolio in the center of this report gives some indication of the kinds of products available for upscaling today's American home.

The central sales and service area of the new store is designed to aid shoppers.

Improved Tools for Management Put into Place

Last Christmas, when Mark Ziglar walked into a Lowe's store in Winston-Salem, N.C., he helped make corporate history. Because when he bought a 25″ color television as a present for his wife, he joined more than 11 million people across 19 states who were Lowe's customers during the year.

And just as he didn't know—or care—that he was part of the largest customer count in Lowe's history, neither was he aware of the long and complex chain in which he was one link.

Just as we're all unaware of the technology of a power generating system when we flick on a light switch, so too is the energy of a retailer directed toward the smooth and efficient transaction of business without the knowledge of the person flicking the retail switch—the customer.

Receipts have to be accounted for . . . merchandise has to be inventoried, ordered and shipped . . . charge sales have to be separated from cash transactions . . . the corporate checkbook has to balance the money received with the money spent, then show the difference as profit . . . and it all has to be done quickly and correctly on a continuing basis, never interrupting the flow of the river of commerce.

All these bits of information are fed into a company-wide computer network, becoming blips of light on a screen or electronic footprints on a magnetic computer tape.

If you listen closely, you can hear it. There, notice it? It's almost an audible hum; like the kind of other-world buzz you hear when standing under high-tension power lines. Or the steady drone of a turbine generator.

It's music. All those little computer chips and flashes of light dashing and darting on terminals; talking to each other in their own special language. Taken together, they form a beautiful symphony.

Assembling, digesting and then reporting all these facts to Lowe's store personnel and senior management is a job which requires a talented array of people and equipment in Lowe's data processing and corporate accounting department.

Because in today's business world, numbers are more than marks on paper. They are an important management tool; forming a two-way channel of communications that is not only useful, but necessary. There should be a dialogue with the numbers—not a monologue.

Realizing that both the reliability and speed of reporting these transactions was the basis for sound and timely business decisions, Lowe's went through a complete redesign of its Financial Reporting System in fiscal 1979. The project was assigned to Lowe's Corporate Accounting Department.

As a foundation for a new system, Lowe's purchased a new General Ledger software package from Software International, a Massachusetts-based firm with 33 offices worldwide. This is a very sophisticated system which employs a unique data

Karen Worley, manager of corporate financial accounting; Lyn Church, manager of store financial accounting; and Leslie Shell, assistant controller.

base concept. Lowe's is among some very large companies which are using the same general software program: Coca-Cola International, Citicorp, Ingersoll-Rand, A&P, and R. J. Reynolds. In fact, about 40% of the "Fortune 500" companies are using it. Dennis Dull, marketing representative from Software International, said "The beauty of Lowe's system is that it's designed, installed, and controlled by accounting management instead of data processors."

With the new General Ledger software in hand and an abundance of in-house talent, Lowe's streamlined the retrieval of data necessary for more timely financial reporting. Internal controls were added which emphasized the reliability of this reporting. The end product was a system with the capability of meeting dynamic historical reporting requirements and astute forecasting for business planning. Dwight Pardue, executive vice president of sales, noted that "The reports we are now receiving comprise the best store management analysis available in the industry."

As an example of the effect of the redesign, management was able to release the January 31, 1980 year-end earnings on March 3, four weeks earlier than last year!

President Leonard Herring said, "During 1979, considerable improvement was made in our General Ledger system through full automation that has enabled us to develop earnings numbers on a more timely basis.

"Previously," Herring said, "we had separate corporations for each store—about 200 organizations, which closed their books for tax purposes at various times during the year. In January of 1979, we combined the stores into one corporation for each state, and changed the year-end close to January 31 for all corporations."

Herring continued, "The consolidation and movement to one year-end closing date, along with installation of a fully automated General Ledger system, has enabled us to close the books for year-end and develop earnings on a more timely basis. We are now in excellent shape. And all of this has been accomplished in the past fiscal year."

Rod Morrow, Lowe's vice president of administration, talked about changes made in the computer network.

"Fiscal 1979 was notable," said Morrow, "because it was the year we completed installation of our Accusale system in every store."

All Lowe's salespeople now have access to a computer screen which shows in-store inventory status, selling price, and information about each product. When a sale is transacted, the Accusale system prints the sales ticket. At day's end, each in-store computer transmits the day's business results to a larger computer at the General Office. Thus, Lowe's Merchandise Group has a daily pulse-taking of the corporate life.

"Accusale is a two-way system which we have been using for some time to change selling prices, add or delete items, or combine an item number," said Morrow. "We are also using it for payroll information. Each week, we send via computer a list of each store's employees. The store then fills in the hours worked, the deductions, etc. and transmits the information back to us through the Accusale network. The checks are then cut."

As a further extension of the Accusale network, Lowe's developed the software in 1979 to replace our existing teletype system.

Called 301, the system is 20 times faster than our existing teletype system. It utilizes the Accusale videoscreen and printer to send messages back and forth between the stores.

"We are experimenting with using 301 to replace some mail," said Morrow. "For example, we can send a three-page memo to every store for as little as 8¢ per store—that saves on postage, duplication, paper, and time."

Barton Bridges, assistant director of data processing, and James Sullivan, manager of mini-systems analysis and development.

The 301 system is expected to be operational company-wide sometime during 1980.

Morrow explained, "Data processing serves two basic functions at Lowe's: Inventory control and inventory management. We've always had some kind of inventory control system—it's been necessary to know previous day's sales, store inventory, what is on order, etc.

"During 1980, our plans call for us to enhance our inventory management capabilities," Morrow said.

Market Segmentation and Refinement-Selling the Professional Builder

When the sheiks of OPEC cut off the flow of oil to America in 1974, their political boycott had financial repercussions that are still being felt across the land. Housing starts were not immune: From two-million-plus years, the industry nosedived; this year, starts are projected to be no more than 1.2 million.

For retailers like Lowe's, with a majority of sales volume pegged to the continued growth and vitality of the housing market, the past five years have been a demi-decade of transition. We have had to fight harder for the contractor business which was still there, and we've had to re-direct our emphasis toward the retail side of the business—the home improvement market, or the person who wants to build a playhouse for his children. The handyman and the browse-and-buy customer became increasingly important to Lowe's.

Because of our success in realizing the potential of this market, then attracting it and expanding it, Lowe's has not only survived but prospered during this period. We put added emphasis on retail advertising; we initiated extensive training seminars to teach our store personnel how to sell to this market; we began innovative new programs of selling not just sticks and stones, but concepts. Our "Weekender" program is evidence of this; we promote the ease and fun of building a variety of useful wood projects, from a deck to a full greenhouse. Once this concept is accepted by a consumer, we can then sell the materials to bring the idea to life.

We think we've had success in attracting and keeping new customers for Lowe's—customers who used to shop at department stores or general retailers . . . or, in some cases, didn't attempt do-it-yourself projects at all until we showed them how easy and fun it can all be.

With the promotion of Dick Griffin to vice president of retail sales in late 1978, our retail side was fully organized and on-stream.

During 1979, senior management turned its attention to the contractor side of the business—called pro business at Lowe's.

Ben Phillips, previously a regional vice president, was named vice president of corporate professional sales and given a challenge: Re-direct Lowe's efforts to increase sales and market penetration in the fiercely competitive world of professional business, much like the company had done in the retail end.

The first thing Phillips did was separate the pro business into two groups. Traditionally, pro business at Lowe's had meant catering to professional builders— many of whom build a half a dozen or fewer houses a year.

"We opened our eyes to the fact that we're a multi-market sales company specializing in building supplies," said Phillips. "We realized there were a lot of companies who could use what we had."

So Phillips and Brent Taylor (Phillips' newly-named corporate professional sales manager) began calling on large concerns.

Several giant textile companies listened to the presentation and liked what they heard. So did an apartment management concern. And a major land development firm. Even several fast-food franchisers.

They signed national purchase agreements with Lowe's; contracts which stated, in effect, that in exchange for our guaranteeing them the best possible prices in any of our markets, the companies would agree to do business with us in all those markets.

"What this meant," Phillips said, "was that we could sign one national purchase agreement in Miami that would hold in 19 states. So if a fast-food firm was going to build an outlet in Knoxville, Tenn., they would buy their materials from our stores there, and be assured of the best possible price we could give them.

"This allowed a company to make a central purchasing decision on building materials—instead of having individuals in 19 states making decisions. It gave the companies centralized control with hot pricing . . . and they loved it."

But this is just the tip of the iceberg, Phillips explained: "What we're doing is simply creative merchandising. We're taking the products we've already got in the stores and building new programs around those products. We're exploring new ideas and new opportunities."

This attitude extends to the heart of our pro business—the countless contractors who build a few houses every year. Because Lowe's professional business isn't based on a few large customers, but many small-to-medium-sized businesses.

"The individual builder will remain crucial to us," Phillips said. "We continue to believe that Lowe's main link to the individual contractor is the individual professional salesman in our stores.

"Our job here is to give each Lowe's salesman all the support he needs to get the job done at the store. And as part of our new attitude, we have directed our salesmen to be more alert to builders' needs during 1980.

"In the past," continued Phillips, "we have waited for the builder to come to us—either by coming into the store or calling us on the phone.

"This year, we are going to the builders. We're going to meet them face-to-face at their 'office'—the job site. It's now corporate policy: each pro salesman has been directed to get out of the store and take the store to the builder. That's called our Professional Sales Contract program, and we're very excited about it.

Ben Phillips, vice president of corporate professional sales, and Brent Taylor, corporate professional sales manager.

"In the face of a national housing de-

Getting It Together in the Sun Belt--How to Buckle the Money Belt

We interrupt this Annual Report to bring you the weather report for Friday, February 15, 1980:

New York City, 21 degrees and fair . . . Milwaukee, 18 and partly cloudy . . . Cleveland, 5 and cloudy . . . Pittsburgh, 8 and fair . . . Chicago, 12 and fair . . . Boston, 16 and fair.

Orlando, 64 and sunny . . . Atlanta, 64 and clear . . . Baton Rouge, 66 and cloudy . . . Texarkana, 66 and cloudy . . . and Zebulon, N.C., 54 and sunny.

The last group of cities has three things in common: 1) Better weather 2) Sun Belt location and 3) a Lowe's store in each.

With heating oil topping a dollar a gallon, the northward flow of people and resources—a flood that grew from a trickle after the Civil War—has been reversed. The pipeline is now bringing people, jobs, money, dreams and business back to the South.

To Lowe's.

A lot of people call the area the "Sun Belt." But it could as easily be called the "Money Belt." A crescent from southern Pennsylvania to eastern Texas is where Lowe's is located; more than 200 stores in 19 of the fastest-growing states in the Union. That makes Lowe's the buckle on the "Money Belt."

Population projections show that although the national population will grow by 19% from 1970 to 1990, the South is expected to grow by 32%. Of the 38 million people the United States is expected to add during those two decades, 21 million will be added in the South.

And it's not just the sheer numbers which are impressive. It's the quality of those numbers.

The new immigrants to the South—many of whom left as teenagers for jobs in Northern cities a few years ago, only to see their old hometowns blossom—are young and affluent.

The 25-34 age group contains the people most likely to buy a house. In 1970, there were 25 million people in this group. During the 1980s, there will be 40 million. The "baby boom" of the post-war era—those from 1946 through 1955—will fuel the "building boom" of the '80s.

Another factor—and a relatively recent one—is single-person households. In 1970, there were 11 million single heads of households nationwide. In 1979, there were 17 million. People are no longer waiting until they get married before buying a home. They're buying now, both to have a place "all my own," and because it's simply the smartest investment the average person can make. At 15% inflation yearly, prices double every five years. Today's $50,000 house is 1985's $100,000 house—and the owner who bought in 1980 has more than $50,000 equity in 1985.

So although what has been called "the best-advertised recession in history" may affect the entire country, many believe that because of its basic strengths and continued growth the South will be affected less adversely than the rest of the country.

Because, while it may be the weather that gets people to the South, there are other things which keep them here. Like jobs. Roads. Schools. Recreation. And a lot of intangibles under the heading "Quality of Life."

The Lowe's market area is generally an area of small-town traders; the South doesn't have large population densities comparable to the Boston-New York-Philadelphia area. There's an Atlanta, New Orleans and Houston sprinkled across the map . . . but we're generally a land of white frame houses, red brick churches, VFW halls, town squares, and July 4th horse shows.

This even distribution of people has allowed Lowe's to grow in a smooth, orderly fashion. And that's how we will continue to grow; by spreading our frosting on the Southern cake with firm, planned strokes.

Call it geo-economics. We call it planting our seed money in fertile fields. Where the sun shines a lot.

cline, we're convinced that it's a great way to gain market penetration for Lowe's. We are going to be assured of not just getting our share of the business, but more than our share."

Lowe's now recognizes that the public is beginning to understand the difference between "price" and "cost." Price is what you pay to get something; cost includes what you pay to keep it. And in housing, cost is spelled e-n-e-r-g-y.

In line with that, Phillips oversaw a reorganization and re-direction of the Homestead Department.

Since 1971, Lowe's has marketed a collection of housing packages under the Homestead umbrella. On-staff designers draw plans and blueprints; individuals or contractors buy from us all the materials to build the house. The progam has been successful—with more than 27,000 homes worth more than $300 million.

"But we needed more modern floorplans," said Phillips . . . so the Homestead Department came up with "new look" houses, by the conventional 2x4 method or by our "Low-E" way that utilizes 2x6s and other innovative building techniques to assure the buyer he's getting the most energy-efficient home practical.

"We came up with a series we called the 'Designer Collection,'" Phillips said. "It was basically an upgrading of materials—nicer bath fixtures, more beautiful kitchen designs, finer carpeting, real wood flooring, upscale appliances, a wider variety of bathroom fixtures—we even sell Jacuzzis now. It added to the price of the plan, of course, but the homebuyer of the '80s is going to be willing to invest in things that add comfort and convenience to his life. Like automobiles, houses of the '80s will be smaller on the outside but more luxurious on the inside." LOWE'S

Marketing Along Main Street and Wall Street

While a history-minded Tar Heel would have chosen a date two days earlier to commemorate the 76th anniversary of powered flight by the Wright Brothers at Kitty Hawk, the date of December 19, 1979 was set by the New York Stock Exchange and no amount of history or Tar Heels could change it.

December 19 marked the end of one era for Lowe's and the beginning of another. For 18 years and a couple of months Lowe's stock had been traded in the national Over-the-Counter market where it had grown from infancy and a small following to one of the top performers with a national following.

However, Lowe's employee/shareholders and other shareholders who live outside the reach of major metropolitan newspapers seldom could follow the stock's market price on a daily basis. And when the stock was bought or sold in the OTC market a higher commission was charged. And an overwhelming number of Lowe's shareholders, responding to last year's annual Shareholder Survey, supported listing on the New York Exchange.

Listed American companies make up only one-tenth of one percent of all American corporations. However, this .1% employs 20% of all American workers, accounts for more than 40% of all U.S. corporate sales and revenues, and earns roughly 80% of all corporate net income in the United States. "It is appropriate that Lowe's be in this group as we approach a billion dollars in sales," Board Chairman Robert Strickland observed.

Trading began that morning with Strickland and the three other men who guided Lowe's during its first two public decades each buying 100 shares of stock. Lowe's became the 1502nd company listed on the Exchange and the company's 13,022,126 shares put the number of shares listed there over the 30 billion share mark, a milestone for the world's premier stock exchange.

New York Stock Exchange visibility is without equal throughout the world. In fact, many foreign investors are interested only in stocks listed there with listing conferring a special cachet of worth and reliability. Many smaller financial institutions in this country, with the advent of ERISA and other regulations, and without the services of a research department, have opted for purchase of only securities listed on the New York Exchange.

Today all shareholders can find Lowe's market activity listed in their local newspapers, and in the Wall Street Journal those following the stock can find the 52-week high and low, the indicated annual dividend, the dividend yield percentage, the price/earnings ratio, the daily volume of shares traded, the previous day's high and low price, the closing price, and the change from the preceding day's close.

The marketing of a company's stock is something that has to be left to those in the business of dealing in securities—brokerage houses. However, the marketing of a company's reputation and ability to earn for investors is squarely in the hands of the company. In more flush days on Wall Street, there were more brokerage houses each with more research analysts. But the contraction in the number of brokerage firms has brought an even more radical reduction in the number of research analysts. Those who remain are faced with following more and more public companies in proportionately decreased time or they have to follow a few companies well. Most opt for the latter.

Traditionally public companies have held the view that if they ran their operations well that the public would find them and their stock. That opinion was predicated on a large and vital analyst community which could look at every company and pick the best ones to recommend to their brokers who in turn would sell stock to customers. Analysts-brokers-customers, the ABC approach. With analysts as a diminished force in their field and with the primary contact still between the broker and customer, logic seems to dictate a program to educate and persuade the broker. Stockbrokers ranked as the largest source of "initial awareness of Lowe's" among the shareholders who responded to last year's Shareholders Survey.

Bill Brantley, director of investor relations, Pete Kulynych and John Walker, managing directors, with the New York Stock Exchange Listing plaque.

Heightened awareness of Lowe's is being sought by a major program initiated by Lowe's last year. In three tests of the program direction and content, meetings were held in 29 cities in the South and in California, in 14 days. More than 600 stockbrokers attended these presentations, conducted by Managing Directors John Walker and Pete Kulynych and Professional Sales Vice President Ben Phillips. The meetings, all arranged by Lowe's, were under the general direction of Bill Brantley, Lowe's new director of investor relations, who previously had directed a successful broker-contact program.

Results cannot be measured quickly and, at best, can be measured by things like increased numbers of shareholders, increased holdings in areas visited, and slight decreases in the average size of share holdings. When market factors are normal, increases in trading volume and in price can be measured.

The program can be best described as one which puts Lowe's in the forefront of the broker's thinking on a routine basis by making him aware of the company first-hand. Brantley makes the point that "as you can't make love long distance we can't motivate stock recommendations that way either."

Claiming to borrow his techniques from "three of the best salesmen of the modern era—Jimmy Carter, Billy Graham and Pope John Paul II," he says that each of them specialize in selling commodities that, like stock, are intangible. "The President, as a candidate, sold faith in himself as the one man who could best run the country in the future. Billy Graham and the Pope sell faith in the future, the expectation of salvation. Both are difficult concepts to sell but these three men, by personal face-to-face effort, made it possible to sell faith in the future. And really that's what Lowe's is selling; it is our future we are promoting and we are doing it with face-to-face contact by savvy, aggressive salesmen."

Last year Lowe's planted one corporate foot on Wall Street and another on Main Street. With listing on the New York Stock Exchange and the origination of a broker-contact program in 29 small and medium size communities, it set the direction of its future efforts.

There are 36,666 stockbrokers in the United States, at recent count. Of these, more than 4,000 reside in the area where Lowe's does business and could be expected to have at least basic awareness of Lowe's as a building materials retailer if not as a public company. Brantley's projected schedule will take him and at least one other company representative into an average of 10 communities a week, one week out of each month, 10 to 12 times annually. At that rate Lowe's teams could talk with 3,500 to 5,000 brokers annually. Areas of concentration will be the Sun Belt cities of Lowe's Land and other selected areas where demographics favor companies like Lowe's.

Couple exchange listing and aggressive broker-contact with continuing Lowe's efforts in progressive financial disclosure through the Annual Report, which last year again won *Financial World's* Oscar award for the 17th time, and the Quarterly Reports, with continuing two-way contact with a wide circle of securities analysts who follow us closely, and a good picture of Lowe's investor relations emerges. The bottom line of all investor relations activities, however, is to have a good and faithful picture of Lowe's emerge.

Population and Growth

U.S. Population & Households 1

Sources: National Consumer Finance Association *1980 Finance Facts Yearbook*, Editor & Publisher *Market Guide*

U.S. Population Trends 2

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

Regional Demographics, 1979 3

	Population (000,000)	Households (000,000)	Age Groups (% of total of each group) 0-24	25-34	35-49	50 & over
New England	12.3	4.4	5%	6%	6%	6%
Middle Atlantic	37.5	13.7	16%	16%	18%	19%
NORTHEAST	49.8	18.1	21%	22%	23%	24%
South Atlantic	**35.1**	**12.5**	**16%**	**16%**	**16%**	**16%**
East So. Central	**14.0**	**4.9**	**7%**	**6%**	**6%**	**6%**
West So. Central	**22.3**	**8.0**	**11%**	**10%**	**10%**	**10%**
SOUTH	**71.4**	**25.4**	**33%**	**32%**	**32%**	**32%**
Mountain	10.6	3.7	5%	5%	5%	4%
Pacific	30.1	11.3	14%	15%	14%	13%
WEST	40.8	15.0	19%	19%	19%	17%
West No. Central	17.2	6.3	8%	8%	7%	8%
East No. Central	41.5	14.7	19%	19%	19%	18%
MIDWEST	58.7	21.0	27%	27%	26%	26%
United States	220.8	79.6	100%	100%	100%	100%

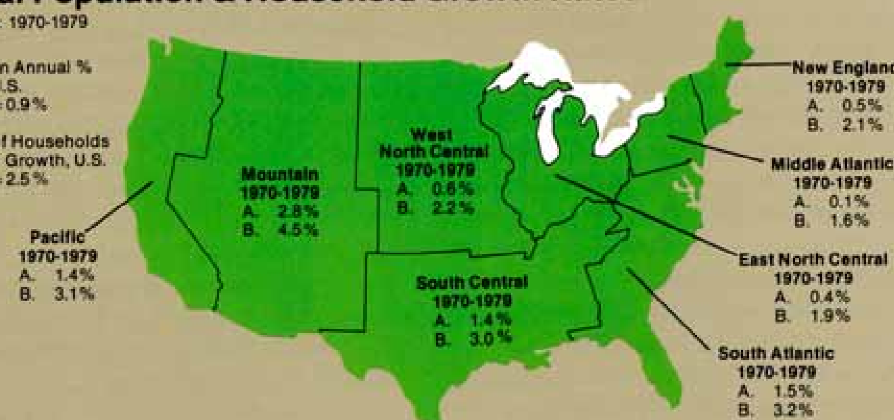
Sources: Editor & Publisher *Market Guide*, S&MM *Survey of Buying Power*

Regional Population & Household Growth Rates 4

Growth Rates: 1970-1979

A. Population Annual % Growth, U.S. Average = 0.9%

B. Number of Households Annual % Growth, U.S. Average = 2.5%



Source: Editor & Publisher *Market Guide*

Population and Households: The formation of households stimulates the need for housing and durable goods, the two sectors of the economy in which we deal. U.S. households are growing faster than the annual rate of the U.S. population, since the size of these households is decreasing, from 3.14 persons per household in 1970, to an estimated 2.67 in 1979. Single-person households now comprise 22% of total households, with two-person households making up another 31%. This trend is due to young adults who set up households, while postponing marriage or children. Another significant factor is the high rate of divorce, up from 3.5 per 1000 adults in 1970 to 5.3 in 1979. Households with female heads are becoming more prevalent, totalling 25.4% of all households in 1979.

Population Trends: The high rate of household formation should continue well through the 1980s. Adults 25-44 are our primary targets, since these are the principal household formation years, and 75% of all new home buyers fall within that age bracket. This demographic group currently comprises 28% of the total population, and will total 32% by 1990 (Chart 2). Persons 0-24, the group that matures into the 25-44 category, will be decreasing in the future if current birth rates prevail, but will still number almost 90 million in 1990, maintaining high demand for housing and durables.

Regional Demographics: As derived from Chart 3, 32% of the total population and households live in the South, where 191 of the 209 Lowe's stores are located. Of this 32% approximately one-half lives in the South Atlantic area. 33% of all Americans aged 0-24 and 32% of all Americans aged 25-49 live in the South, confirming a continuing large market for home-oriented products.

Regional Population and Household Growth Rates: U.S. household formation is increasing at nearly three times the population rate, as shown in Chart 4, with the Southern and Western regions showing significantly greater household growth, due to extensive migration to the Sun Belt, and not to a higher birth rate. The intensification of the energy crisis and the steady industrialization of these geographical areas should continue to attract greater numbers of people to the South and West, continuing the pattern of growth prevalent in the 1970s.

Money and Spending

Gross National Product: GNP, the nation's leading economic indicator, was a record $2.4 billion in 1979 and showed an 11.3% increase from 1978. However, inflation was responsible for a significant portion of this increase; real growth (in 1972 dollars) was 2.3%, compared with the 4 to 5% year-to-year increases 1975-78. Personal Consumption Expenditures, representing total spending for services, durable and non-durable goods, showed an 11.8% increase 1978-79, with 2.6% real growth. PCE continues to increase at a greater annual growth rate than does either GNP or Disposable Personal Income, and currently represents approximately 64% of total GNP. The categories within PCE showing the highest annual growth rate were transportation, automotive, and housing, at 11.4%, 11.3% and 11.2% respectively.

Regional Household Buying Income: Total Effective Buying Income increased 5.2% from 1978-79, while median household income grew 8.1%, from 1977 to 1978. Annual growth rates since 1970 have been 8.6% for EBI and 5.5% for median household income. The South leads the other regions in annual growth, at 9.8% and represents 30% of total EBI.

The most marked increase revealed in Chart 6 is the growth in the number of households with incomes over $25,000. In 1977, these households constituted 19% of total households: in 1978 (latest year available) they represented 24% of the total. This trend is due to inflation and to the continuing increase in the number of two-income families. In 1978, approximately 50% of all adult women worked outside the home. Two of every three women aged 25-34, the demographic age segment representing 50% of all homebuyers, are in the labor force. These working women provide an ever-expanding market for home decoration/renovation products and labor-saving devices, and have made an impact on the marketing strategy of many building supply retailers.

Consumer Spending: In 1970, Americans spent 21.4% of total PCE dollars on housing and household operation. These categories currently consume 22.7% of total PCE and are expected to represent 22.9% in 1980 and 23.1% by 1985. In 1970, $85 billion, 13.7% of PCE, was spent on durable goods. By 1980, Americans will spend 16.6% of the $1.6 trillion total PCE for durable goods, for an estimated $274 billion. In 1985, durables will constitute 17.6% of PCE.

Gross National Product 5

Personal Consumption Expenditures & Disposable Personal Income

*Compound Growth Rate 1970-79
p = Preliminary Figures.

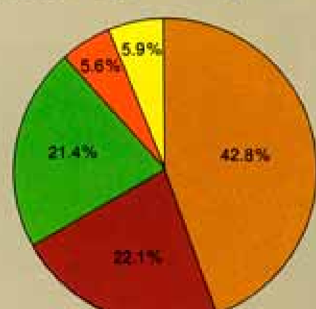
Source: *Economic Indicators*

Regional Household Buying Power 6

	1979 Total EBI* (000,000)	1978 Median HH EBI	Households By Effective Buying Income Group (1978): Under $8,000 (000)	$8,000-9,999 (000)	$10,000-14,999 (000)	$15,000-24,999 (000)	$25,000 & over (000)
New England	$ 83.1	$ 17,218	849.3	239.0	701.6	1,437.0	1,045.8
Middle Atlantic	262.2	16,950	2,753.4	745.2	2,155.8	4,190.0	3,288.2
NORTHEAST	345.3		3,602.7	984.2	2,857.4	5,627.0	4,334.0
South Atlantic	**217.1**	**14,681**	**3,183.5**	**851.8**	**2,196.7**	**3,533.9**	**2,420.9**
East So. Central	**77.7**	**13,233**	**1,506.9**	**334.4**	**814.1**	**1,267.1**	**824.4**
West So. Central	**138.0**	**14,905**	**2,114.6**	**492.7**	**1,236.7**	**2,106.0**	**1,691.2**
SOUTH	**432.8**		**6,805.0**	**1,678.9**	**4,247.5**	**6,907.0**	**4,936.5**
Mountain	63.7	15,421	861.9	233.5	645.0	1,119.2	733.5
Pacific	218.4	17,200	2,406.6	626.6	1,722.4	3,427.1	2,944.9
WEST	282.1		3,268.5	860.1	2,367.4	4,546.3	3,678.4
West No. Central	111.1	15,451	1,536.5	375.9	1,004.3	1,845.8	1,260.5
East No. Central	286.2	17,992	2,824.8	705.7	2,079.3	4,715.0	3,856.0
MIDWEST	397.3		4,361.3	1,081.6	3,083.6	6,560.8	5,116.5
United States	$1,457.5	$ 16,231	18,037.5	4,604.8	12,555.9	23,641.1	18,065.4
Percent of U.S. Total			23%	6%	16%	31%	24%

*Effective Buying Income equals income minus taxes, levies, etc.
Sources: Editor & Publisher *Market Guide*, S&MM *Survey of Buying Power*

Consumer Spending 7



1970

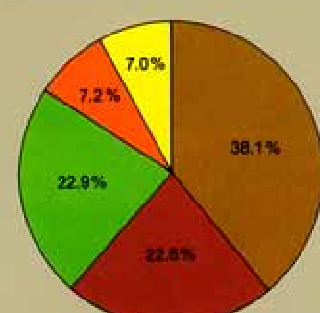
	% of Total	Billions of Dollars
Durable Goods	13.7%	$ 85
Furniture & HH Equipment	5.9%	37
Automotive	5.6%	35
Services	43.5%	269
Housing & HH Operation	21.4%	132
Other Consumer Services	22.1%	137
Non-durable Goods	42.8%	265

Total Consumption Expenditures—$618.8 billion
Source: Department of Commerce

1980

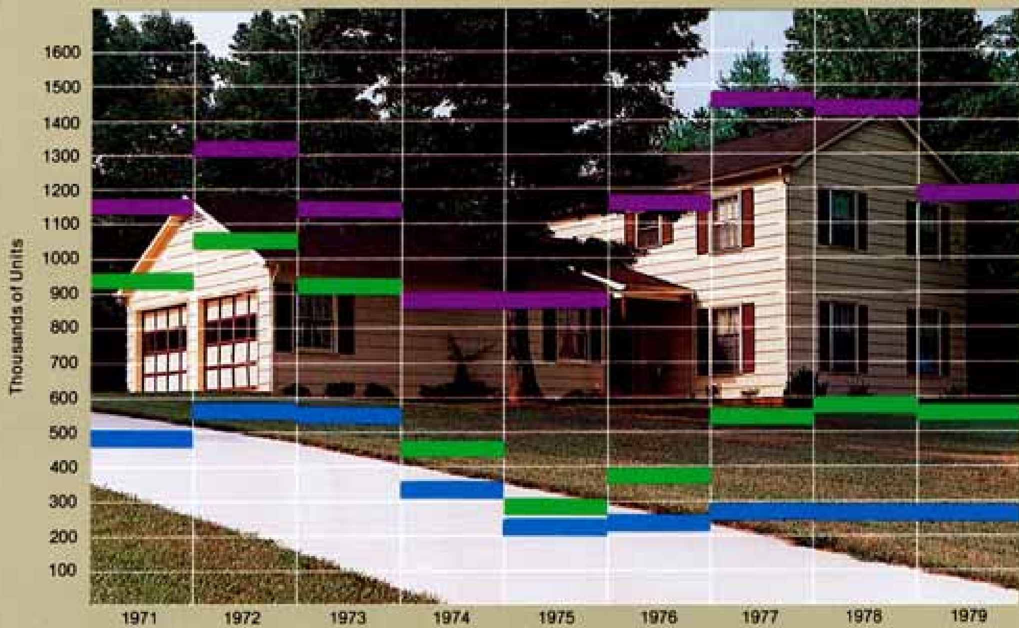
	% of Total	Billions of Dollars
Durable Goods	16.6%	$274
Furniture & HH Equipment	7.0%	116
Automotive	7.2%	119
Services	45.5%	752
Housing & HH Operation	22.9%	379
Other Consumer Services	22.6%	373
Non-durable Goods	38.1%	630

Total Consumption Expenditures—$1.6 Trillion
Source: U.S. Department of Commerce, U.S. Department of Labor



Housing: The Changing Mix

8



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

p = preliminary figures

Sources: *Construction Review*, Manufactured Housing Institute

Construction Spending Components

9

(Billions)

	1970	1975	1976	1977	1978	1979	70-79 CGR*
A. Government	$28.1	$ 40.9	$ 39.1	$ 38.2	$ 45.8	$ 48.7	+ 6.3%
B. New Housing	24.3	34.4	47.3	65.7	75.8	77.1	+ 13.7%
C. Private Additions and Alterations	6.2	10.9	12.3	14.2	16.4	17.9	+ 12.5%
D. Commercial and Industrial	16.3	20.8	19.9	22.5	29.6	38.6	+ 10.0%
E. Other	20.0	27.5	32.5	33.4	38.6	44.4	+ 9.3%
Total	$94.9	$134.5	$151.1	$174.0	$206.2	$226.7	+ 10.2%

*Compound Growth Rate

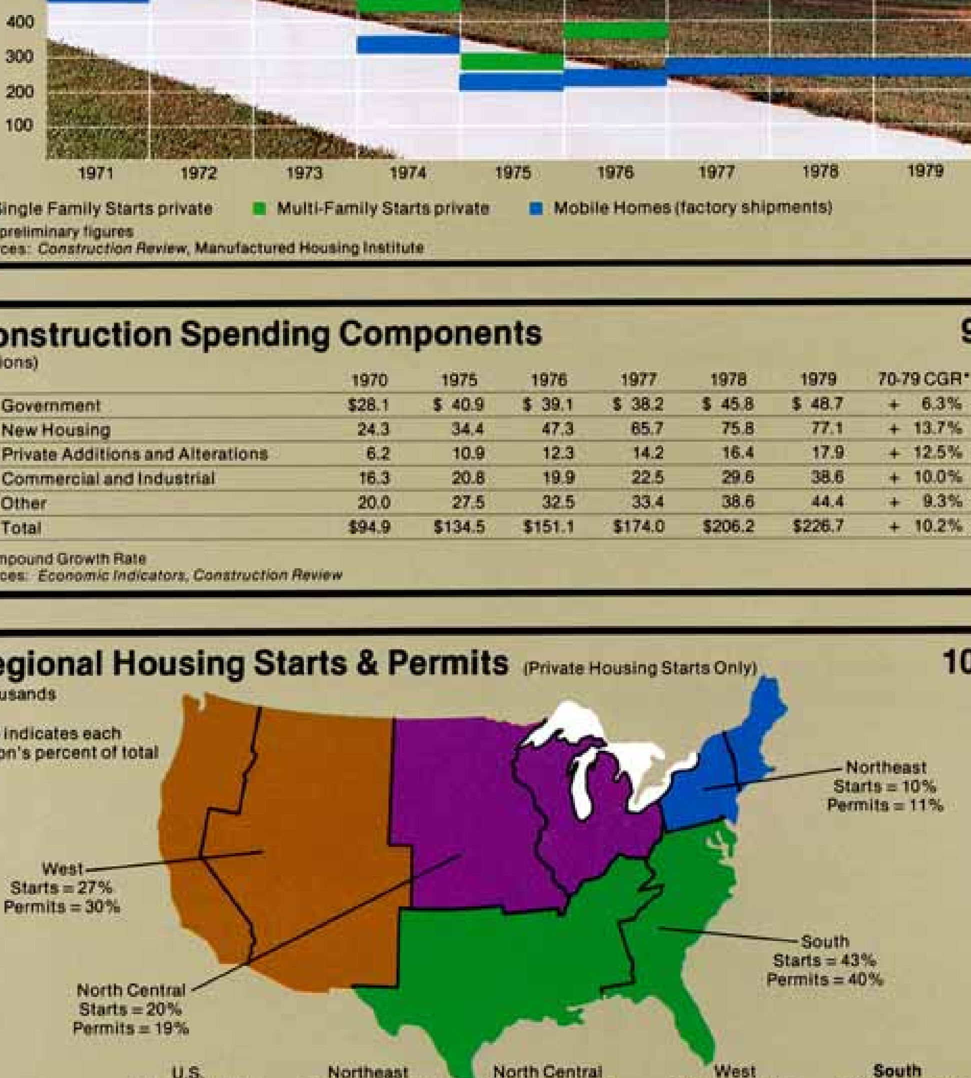
Sources: *Economic Indicators, Construction Review*

Regional Housing Starts & Permits (Private Housing Starts Only)

10

Thousands

Map indicates each region's percent of total



	U.S.		Northeast		North Central		West		South	
	Starts	Permits	Starts	Permits	Starts	Permits	Starts	Permits	Starts	Permits
1971	2052	1981	271	308	440	430	490	478	884	737
1972	2357	2239	334	338	445	443	532	543	1068	915
1973	2045	1830	277	273	440	364	429	425	899	768
1974	1338	1088	183	166	317	244	285	281	553	397
1975	1160	949	149	130	294	243	275	278	442	298
1976	1538	1303	169	152	400	326	400	418	569	406
1977	1987	1692	202	182	465	403	538	545	783	563
1978*	2020	1801	200	194	451	388	545	551	824	668
1979*	1743	1549	177	166	348	290	470	466	748	627

*Permit figures for 1978 & 1979 are for 16,000 permit-issuing places and are not, therefore, directly comparable to permit figures prior to 1978, which reflect 14,000 permit-issuing places.

Sources: *Construction Review, Construction Reports*

The Housing Mix: As shown in Chart 8, housing starts were approximately 1.7 million units in 1979, down 14% from the 2 million starts in 1978. Single family units, at 1.2 million, were down 17% from 1978, while multi-family starts showed a 6% decline. Mobile home shipments remained steady at 276 million units, compared with 275 million for 1978.

The decrease in housing starts was not unexpected—indeed had been widely predicted. Inflation lessens the population's desire to save, which decreases the amount of money available at conventional mortgage sources. Interest rates have reached levels out of the affordable range of many wage earners. Coupled with the money shortage is the rapidly rising cost of new housing, fueled by increases in construction costs.

Industry observers are forecasting a 1.2 million housing starts level in 1980, and some believe that the housing recession should begin gradual recovery in the third quarter. Lowe's believes the start level will be much lower. Mortgage rates should remain high, forcing potential homeowners to postpone ownership. Demand will remain strong, due to a high rate of household formation and the extremely low vacancy rate in rental properties.

Construction Spending Components: As shown in Chart 9, construction expenditures totalled almost $227 billion in 1979, approximately 9.5% of GNP. New housing, at 34%, represented the largest percentage of total expenditures, followed by government spending at 21%. The largest percentage increase came in commercial and industrial spending, up 30% over 1978 and representing 17% of total expenditures. Through our Corporate Professional Sales Department, Lowe's plans more involvement in this rapidly growing and less cyclical segment of construction spending (see story on Page 27).

Regional Housing Activity: U. S. housing starts and permits were down 14% from 1978, but the housing recession expected in 1979 was later and milder than predicted. Housing activity in the South remained stronger than that of the rest of the nation, with starts down 9% and permits down only 6%, reflecting demographic trends previously discussed herein. These trends will continue the strong demand for housing in our marketing area. Unfortunately demand can't be met when credit is curtailed severely.

Trends in Prices: In Chart 11, price indices for key sectors of the economy and selected construction components are presented. From 1978-79, the leading indicator, the Consumer Price Index, showed a larger percent increase, at 11.3%, than did Durables, Food or All Construction Materials. Brick and Gypsum lead the list for increases in construction components at 12.2% and 10.1% respectively, while both Southern Pine and Plywood categories showed the smallest increase at 6.4%

New Housing Costs: The median sales price for a new home climbed 13% since year-end 1978, as shown in Chart 12. From 1970-79, the median price of a new single-family home increased 169%, while median family income increased by 54%. Thus we have a larger and larger share of family income being devoted to attaining and maintaining housing. Not all of this increase is attributable to high construction and labor costs, and inflation. New homeowners in 1979 demanded homes with more luxuries than did buyers in 1970. Today's median home has 18% more floor space than in 1970. 73% of new homes have multiple bathrooms and 58% have installed air conditioning, compared with 48% and 34% in 1970. 42% of new homes in 1970 had dishwashers compared with 85% in 1979. With interest rates and inflation at record highs, meaningful drops in housing costs are wishful thinking; however, the current economic situation should at least plateau these costs for awhile.

Remodeling Expenditures: Last year, Americans spent $42.2 billion on renovation and remodeling of existing homes, a 12.5% increase over 1978. Of that total, almost 70% was spent by owners of single family, owner-occupied units. Approximately $7 billion was spent on materials by owners who intended to do all or part of the remodeling themselves.

Existing Home Sales: 3.7 million existing homes were sold in 1979, 4% less than the number of units sold in 1978. Sales of these 1979 homes amounted to $238 billion with 39% being sold in the South, for a total of 1.4 million units and $84.2 billion.

Trends, Construction Costs & Prices 11

Index: 1967 = 100

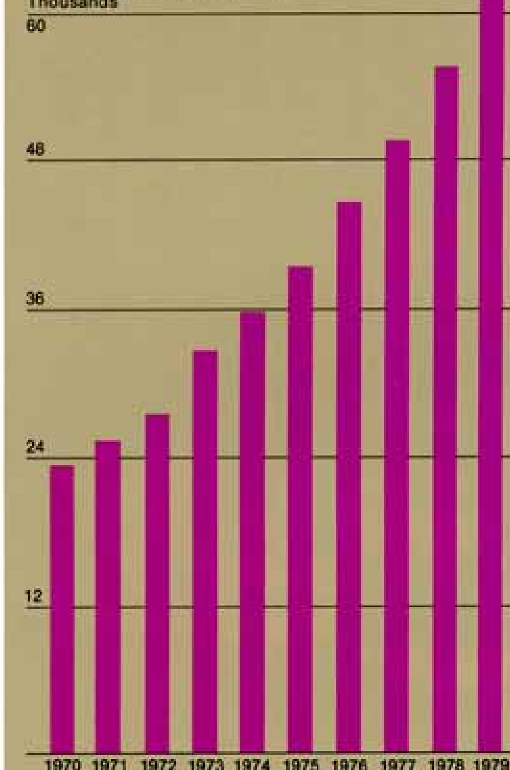
	Consumer Price Index	All Durable Goods	Food	All Construction Materials	Southern Pine	Plywood
1970	116.3	111.8	114.9	112.5	114.5	108.5
1975	161.2	145.5	175.4	174.0	175.3	161.2
1976	170.5	154.3	180.8	187.7	217.4	187.0
1977	181.5	163.2	192.2	204.9	262.3	212.0
1978	195.4	173.9	211.4	228.3	304.6	235.6
1979	217.4	191.1	234.5	251.4p	324.2p	250.6p

	Millwork	Gypsum	Roofing Asphalt	Plumbing	Brick	Hardware
1970	116.0	100.0	101.8	112.5	112.2	112.9
1975	160.4	130.8	217.9	162.3	160.5	158.8
1976	176.9	137.3	231.3	174.1	177.0	164.1
1977	193.6	183.5	246.4	186.6	204.0	175.7
1978	235.4	229.1	288.8	199.1	234.4	187.7
1979	254.3	252.3	314.4	217.1	263.1	205.2

p = preliminary
Source: *Economic Indicators, Construction Review*

Cost of New Homes 12

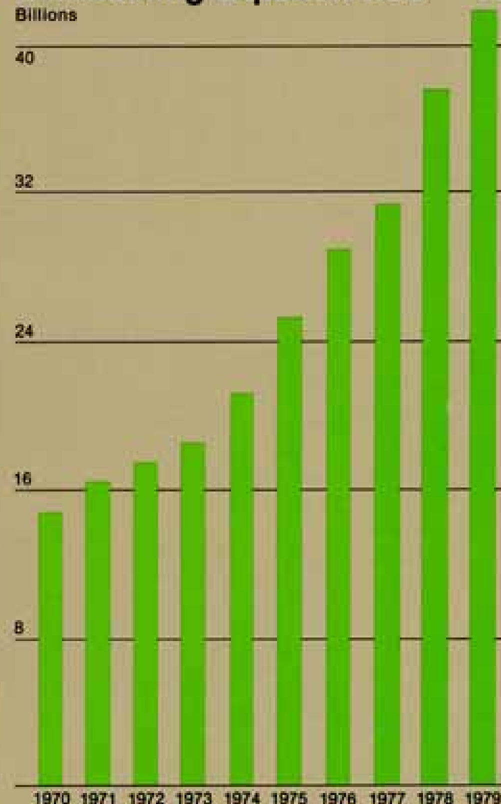
Single Family, Median Sales Price
Thousands



Source: *Construction Reports*

Remodeling Expenditures 13

Billions



Source: *Residential Alterations and Repairs, Construction Reports*

Existing Home Sales* 14

	U.S. Units Sold (000)	U.S. Dollar Volume (billions)	Northeast Units Sold (000)	North Central Units Sold (000)	West Units Sold (000)	South Units Sold (000)	South % of U.S. Total
1970	1,612	$ 41.4	251	501	292	568	35%
1971	2,018	56.5	311	538	389	735	36%
1972	2,252	67.8	361	630	473	788	35%
1973	2,334	76.8	367	674	446	847	36%
1974	2,272	81.3	354	645	434	839	37%
1975	2,452	95.6	377	685	491	899	37%
1976	3,002	126.7	458	843	591	1,110	37%
1977	3,547	170.1	480	1,110	703	1,254	35%
1978	3,863	214.4	494	1,132	741	1,495	39%
1979	3,701	$237.6	504	1,050	720	1,427	39%
1970-79 CGR**	9.7%	21.4%	8.1%	8.6%	10.5%	10.8%	

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

Source: National Association of Realtors®

U.S. Retail Sales

15

Millions

	1970	1975	1978	1979	1978-79 % Chg.	1970-79 CGR*
Food	$ 89,793	$138,006	$174,458	$194,701	+11.6%	9.0%
Eating/Drinking Places	31,463	51,427	70,083	76,326	+ 8.9%	10.4%
General Merchandise	49,981	73,761	99,505	108,050	+ 8.6%	8.9%
Apparel Group	20,742	31,669	37,828	41,226	+ 9.0%	7.9%
Furniture & Appliance Group	17,806	28,114	37,430	42,346	+13.1%	10.1%
Automotive	63,098	105,288	163,668	172,194	+ 5.2%	11.8%
Gasoline Stations	29,340	47,387	60,884	73,697	+21.0%	10.8%
Drug & Proprietary Stores	13,783	19,412	25,337	28,050	+10.7%	8.2%
Liquor Stores	8,272	12,169	13,616	15,338	+12.6%	7.1%
Lumber, Bldg. Materials, Hardware & Mobile Homes	17,615	26,262	44,125	49,957	+13.2%	12.3%
Durable Goods	109,889	178,887	277,916	303,944	+ 9.4%	12.0%
Non-durable Goods	261,193	401,558	520,902	580,189	+11.4%	9.3%
United States	$371,082	$580,445	$798,818	$884,133	+10.7%	10.1%

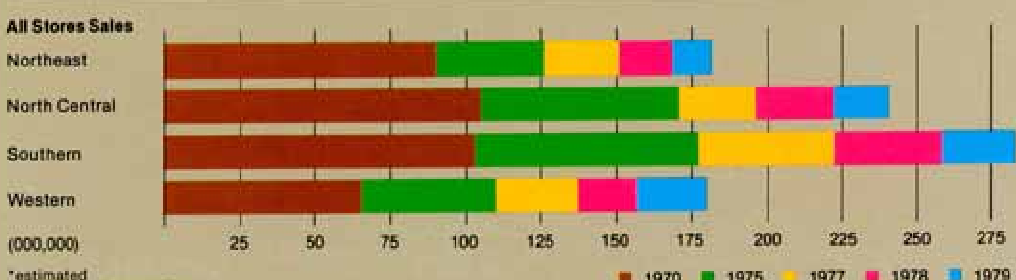
*Compound Growth Rate
Source: Department of Commerce *Retail Trade*

Regional Retail Sales

16

Millions

	1970	1975	1978	1979	1978-79 % Chg.	1970-79 CGR**
Northeast Region						
All Stores	$ 90,029	$126,343	$165,660	$180,602	9.0%	8.0%
All Durables	24,207	33,463	48,996	53,079	8.3%	9.1%
GAF Group	26,906	33,844	44,019	48,077	9.2%	6.7%
LBH Group	3,364	4,593	5,484	6,570	19.8%	7.7%
North Central Region						
All Stores	$105,519	$170,557	$221,071	$239,016	8.1%	9.5%
All Durables	32,272	54,241	78,868	83,636	6.0%	11.2%
GAF Group	28,137	41,809	54,382	57,697	6.1%	8.3%
LBH Group	7,687	12,852	13,204	14,667	11.1%	7.4%
Southern Region						
All Stores	**$103,524**	**$177,239**	**$255,599**	**$285,872**	**11.8%**	**11.9%**
All Durables	**32,521**	**58,666**	**93,716**	**102,339**	**9.2%**	**13.6%**
GAF Group	**27,725**	**45,204**	**61,675**	**69,466**	**12.6%**	**10.7%**
LBH Group	**5,374**	**10,636**	**15,559**	**17,143**	**10.2%**	**13.8%**
Western Region						
All Stores	$ 65,499	$110,284	$156,488	$178,643	14.2%	11.8%
All Durables	20,694	34,355	56,336	64,890	15.2%	13.5%
GAF Group	17,312	27,417	41,112	46,271	12.5%	11.5%
LBH Group	3,242	6,123*	9,878	11,577	17.2%	15.2%



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

Pertinent Retail Category Sales

17

Millions

	1970	1975	1978	1979	1970-79 CGR**
1. Lumber, Building Materials, Hardware, Mobile Home Group	$17,615	$26,262	$44,125	$49,957	12.3%
*A. Lumber Yards, Building Material Dealers, Paint, Plumbing and Electrical Stores	11,248	17,793	29,991	33,059	12.7%
*B. Hardware Stores	3,228	4,935	6,881	8,453	11.3%
C. Mobile Homes & Other	3,139	3,534	7,253	8,445	11.6%
2. Furniture & Appliance Group	$17,806	$28,114	$37,430	$42,346	10.1%
A. Furniture, Home Furnishings Stores	10,578	16,740	22,719	25,968	10.5%
*B. Household Appliance, TV, Radio	6,147	8,898	10,991	12,610	8.3%
C. Other	1,081	2,476	3,720	3,768	14.9%
*Totals 1A, 1B, 2B:	$20,623	$31,626	$47,863	$54,122	11.3%

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

U.S. Retail Sales: Total retail sales were a record $884 billion last year, up 10.7% from 1978, with Food and Automotive Sales receiving the greatest percent of total. Annual growth rate was 10.1% for 1970-79, and total sales represented 59% of total Personal Consumption Expenditures. Due to our wide product selection, Lowe's does not really fit into any one store group or category shown in Chart 15. We define ourselves as a combination lumber yard, building materials supplier, home furnishings retailer, appliance and hard goods dealer, and hard goods discounter. We sell Durable Goods, and the store categories most applicable to us are the Lumber, Building Materials, Hardware Group (LBH), and the Furniture and Appliance Group.

Gasoline Stations showed the greatest percent increase 1978-79, due to the rapidly spiraling price of crude oil. LBH and Furniture/Appliance Groups showed the next highest increases for the year at 13.2% and 13.1% respectively. These two groups represented 10% of total retail sales and 30% of all durable goods sales. LBH and Durable Goods were the categories showing the best nine year growth record, while Furniture/Appliance experienced a growth rate equal to that of total retail sales.

Regional Trends: Sales of selected major stores by region are shown in Chart 16. The strength of the Southern marketplace is evidenced by the fact that 32% of total retail sales is generated by the South. More importantly for Lowe's, 34% of all LBH and Durable Goods sales occur in the Southern region. The nine-year growth rate for LBH in the South was surpassed by the growth of the LBH group in the Western region; however, LBH sales in the West only represented 23% of total U.S. LBH sales.

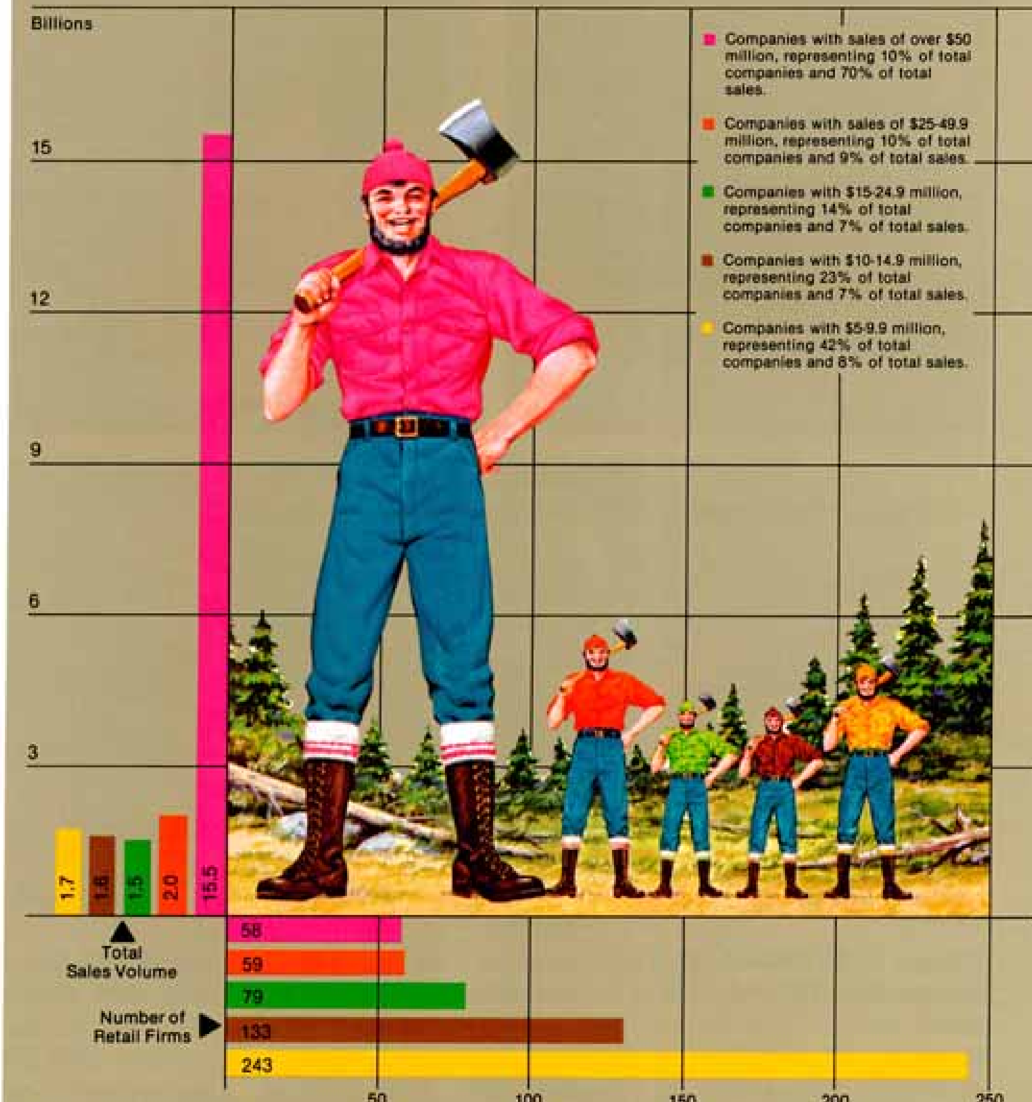
Pertinent Retail Category Sales: Chart 17 is an attempt to create a retail group most closely resembling Lowe's unique business. We have combined both LBH and Furniture/Appliance groups but have removed Mobile Home dealers and full-line furniture stores, since we really do not compete with these businesses. Categories 1A, 1B, and 2B are the major retail groups most relevant to Lowe's. Sales for this specialized group experienced a 13% increase 1978-79, and an annual growth rate of 11.3%.

Fragmentation of the Competition: Our competitors run the gamut from local hardware stores and lumber yards to discount stores and chain-operated home center and building supply outlets. A recent *Building Supply News* survey found that there are some 572 retail companies, both chain-operated and independent, with sales of over $5 million. These companies represent 45% of the total Lumber, Building Materials and Hardware sales in the U.S. The top 5 companies are Sears, Wickes, K mart, Lowe's, and J.C. Penney, with total sales of $7.8 billion, for 16% of national LBH sales. Perhaps most significant of the data presented in Chart 18 is that 58 companies, 10% of the total, do 70% of the sales generated by the top LBH companies in the nation. The combined sales of these 58 companies is $15.5 billion, 31% of national LBH sales. Further proof of the extreme diversification of this group of retailers is the fact that 66 are single-store companies, 335 of the 572 are independents and 237 are chains.

Growth of the Chains: A sales history of the 25 largest building supply retail chains, excluding mass merchandisers who carry building supply goods, is shown in Chart 19, along with comparable expenditures and growth rates of total U. S. Lumber, Building Materials and Hardware sales minus Mobile Homes. We divided the 25 chains into two groups, according to dollar volume of sales, to determine the impact of the top half, including Lowe's, as compared with the bottom half. Since 1972, the top twelve chains have had an annual growth rate of 22%. This figure is somewhat inflated due to acquisitions and mergers that have taken place since 1978. The 12 retailing giants represent almost 15% of LBH sales minus Mobile Homes while combined sales of all 25 equal 19% of LBH. The remaining 13 chains had an excellent annual growth rate of 17.3%, higher than the annual rate of U.S. Lumber, Building Materials, and Hardware sales minus Mobile Homes.

Market Penetration: Chart 20 gives an interesting look at our impact in the South, our marketplace. From 1972-79, our annual growth rate was almost double that of total Lumber, Building Materials and Hardware sales in the South. Our share of market has grown from approximately 3% to over 5% for the same time period. We see no reason to discontinue this trend — look for more of the same from us in the future.

Fragmentation of the Competition — 18



Source: *Building Supply News*

The Growth of the Chains — 19

The 25 Largest Building Supply Retailers*

Millions

	1972	1975	1978	1979	1972-79 CGR**
Lumber, Building Materials, Hardware Sales—U.S.	$18,820	$22,728	$36,872	$41,512	12.0%
Sales of the top 12 building supply giants	$ 1,538	$ 2,292	$ 3,881	$ 6,177 est.	22.0%
% of total LBH	8.2%	10.1%	10.5%	14.9%	
Sales of remaining 13 giants	$ 546	$ 791	$ 1,298	$ 1,666 est.	17.3%
% of total LBH	2.9%	3.5%	3.5%	4.0%	

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

The Penetration of Lowe's — 20

Millions

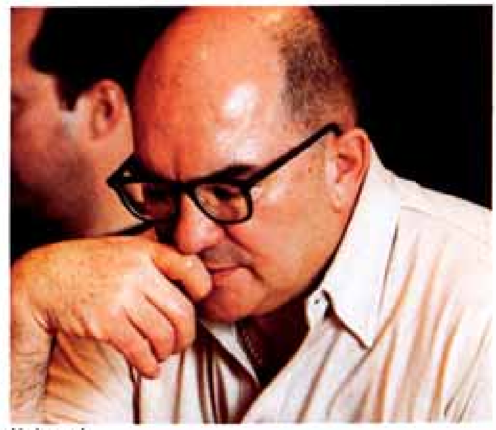
	1972	1975	1978	1979	1972-79 CGR†
Annual Sales of Lumber, Building Materials, Hardware—Southern Region*	$8,188	$10,636	$15,559**	$17,143**	11.1%
Lowe's Annual Sales***	$ 235	$ 388	$ 793	$ 905	21.2%
Lowe's Sales as % of total LBH in South	2.9%	3.6%	5.1%	5.3%	

*LBH figures for 1972 & 1975 are unrevised and include farm equipment.
**LBH figures for 1978 & 1979 also include mobile home sales.
***1972 Lowe's annual sales are based on fiscal year ending 7-31-72.
†Compound Growth Rate
Source: Department of Commerce *Retail Trade*

Lowe's Board of Directors

Strickland

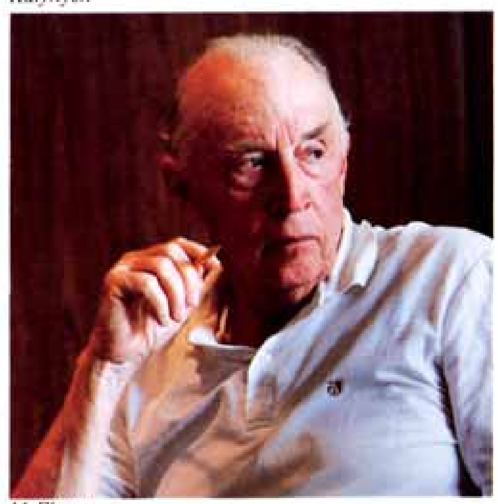
Herring



Kulynych

Schwartz *Cadwgan*

Walker



McElwee

Robert L. Strickland, 49, Chairman of the Board since 1978, director since 1961. Member of Compensation Committee of the Board; Executive Vice President 1976-1978; Member Office of the President 1970-1978; Senior Vice President, 1970-1976. Director, Revelstoke Companies, Ltd., (lumber mills, retail building materials and redi-mix concrete plants), Calgary, Alberta, Canada, since 1976.(1)

Gordon E. Cadwgan, 66, Director since 1961. Chairman of Audit Committee and Member of Compensation Committee of the Board. Trustee and Financial Consultant, Tucker, Anthony & R. L. Day, Inc., Boston, Mass., since February, 1979; Director, Leach & Garner Company; Vice President, Merrill Lynch, Pierce, Fenner & Smith, Inc., Boston, Mass., 1978-1979; Vice President, White, Weld & Company, Inc., Boston, Mass., 1974-1978.

Robert G. Schwartz, 52, Chairman of Compensation Committee and Member of Audit Committee of the Board, director since 1973. Vice Chairman of the Board, Chairman of the Finance Committee, Director, Metropolitan Life Insurance Company, New York, N. Y., since March 1, 1980. Executive Vice President, Metropolitan Life Insurance Company, New York, N. Y., 1979-1980. Senior Vice President, Metropolitan Life Insurance Company 1976-1978. Director, Potlatch Corporation, (paper and forest products), San Francisco, Calif., since 1973; Director, Kaiser Cement & Gypsum Corporation, (cement), Oakland, Calif., since 1977.

(Data on Pages 36-37 current with proxy information dated April 22, 1980)

Leonard G. Herring, 52, President and Chief Executive Officer since 1978, director since 1956. Member Office of the President 1970-1978; Secretary of the Company 1956-1978; Executive Vice President 1976-1978; Senior Vice President 1970-1976. Director, Northwestern Financial Corporation, North Wilkesboro, N. C., since 1969.

Petro Kulynych, 58, Managing Director since 1978, director since 1952. Executive Vice President 1970-1978; Member Office of the President 1970-1978. Director, North Wilkesboro Savings & Loan Association, North Wilkesboro, N. C., since 1974.(1)

John A. Walker, 57, Managing Director since 1978, director since 1961. Executive Vice President 1970-1978; Member Office of the President 1970-1978. Director, Brad Ragan, Inc., Spruce Pine, N. C., since 1972; Trustee, Northwestern Financial Group, North Wilkesboro, N. C., since 1971.(1)

William H. McElwee, Sr., 72, Senior Vice President and General Counsel since 1970, director since 1961. Member of Audit and Compensation Committees of the Board. Partner, McElwee, Hall, McElwee, & Cannon (Attorneys-at-Law), North Wilkesboro, N.C.(1)

(1) Also officer

Corporate Information

Officers

LEONARD G. HERRING, 52
PRESIDENT AND
CHIEF EXECUTIVE OFFICER
Appointed 1978

DWIGHT E. PARDUE, 51
EXECUTIVE VICE PRESIDENT,
STORE OPERATIONS
Appointed 1978

J. ROSS BURGESS, JR., 51
EXECUTIVE VICE PRESIDENT AND
GENERAL MERCHANDISE MANAGER
Appointed 1978

CLAYTON A. GRIFFING, 39
SENIOR VICE PRESIDENT
FINANCE
Appointed 1980

RICHARD ELLEDGE, 38
SECRETARY AND CONTROLLER
Appointed 1978, and 1973

RODERICK P. MORROW, 37
VICE PRESIDENT, ADMINISTRATION
Appointed 1977

WADE L. DUPREE, 38
VICE PRESIDENT,
REAL ESTATE & EXPANSION
Appointed 1976

REX L. SHUMATE, 53
VICE PRESIDENT AND TREASURER
Appointed 1973

ARNOLD N. LAKEY, 43
VICE PRESIDENT,
CREDIT MANAGEMENT
Appointed 1973

General Information

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

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

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

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

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

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

DIVIDEND REINVESTING AGENT
Citibank, N.A.
Box 3357 Grand Central Station
New York, N.Y. 10043

GENERAL COUNSEL
McElwee, Hall, McElwee, & Cannon
906 B Street Rear
North Wilkesboro, N.C. 28659

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

Investor Relations

Security Analyst and Shareholder inquiries should be directed to:
William F. Brantley
Director of Investor Relations
Lowe's Companies, Inc.
P. O. Box 1111
North Wilkesboro, N. C. 28656
Telephone 919/667-3111

LOWE'S ANNUAL MEETING
Friday, May 23, 1980, 2:00 p.m.
The Holiday Inn
Highway 268 West
Wilkesboro, North Carolina

FORM 10-K
Lowe's Annual Report to the Securities and Exchange Commission on Form 10-K has been mailed to all shareholders. New shareholders and others interested may write for copies to Lowe's Companies, Inc., Investor Relations, Box 1111, North Wilkesboro, North Carolina 28656.

COMMON STOCK
Lowe's Common Stock is traded on the New York Stock Exchange under the ticker symbol of LOW.

What You Should Know About Being a Lowe's Shareholder

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

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

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

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

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

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

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

All transfers should be sent in care of the Stock Transfer Department to whichever of Lowe's transfer agents you choose, and you will find the addresses for both of Lowe's transfer agents on Page 37.

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

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

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

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

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

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

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

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

Shareholder Census and Survey

Stockholder Composition: The number of Lowe's shareholders increased again this year, to 5,147 this January from 4,750 a year ago, an increase of 8.3%. The previous year the increase was 1.3%. This is the fifth consecutive year of increase in Lowe's shareholder ranks. Table 3 shows our current shareholder census, by state, of record January 31, 1980. There are 4,201 shareholders in the 19 states where Lowe's has stores for 82% of the total number of shareholders. These shareholders, which include many customers, employees, and suppliers—people who know us best—represent 3,301,425 shares, 25% of the total number of shares. The percentage of shareholders living in the Lowe's marketing area last year was 78%. Lowe's shareholders live in every state, except South Dakota and Wyoming, as well as in the District of Columbia, Canada and several foreign countries.

Lowe's Profit-Sharing Trust continues as the largest shareholder with 2,103,942 shares, or 16% of the total, a decline of 1% in the year. Lowe's Employee Stock Ownership Trust now owns 585,156 shares, or 4.5%, making it the 5th largest shareholder. These two groups together, representing Lowe's employees' ownership, are prime proof of the vested interest employees have for the continued growth and profitability of the company.

Shareholder Survey: A Shareholder Survey for 1980 is included in this Annual Report. A few minutes of your time to complete it will be greatly appreciated, just as we have appreciated your participation in previous surveys. Your answers last year were beneficial in consideration of our listing on the New York Stock Exchange and in maintaining dividend policy.

As the number of individual shareholders has increased, we note with interest that a substantial number of survey respondents indicated first awareness of Lowe's came from stockbrokers and media articles. It is heartening also to note that many times this first awareness came from a Lowe's employee. Capital appreciation remained the principal investment objective but there was a dramatic increase in the number of respondents who said they sought both appreciation and dividends. Through the end of Fiscal 1979 Lowe's has paid 75 consecutive quarterly dividends. Please refer to the historical summary of Lowe's growth on the inside back cover and on Page 60 for a complete picture of dividend growth.

1979 Survey of Shareholders — 1

1. Gender of Shareholders:

Male	88%
Female	11%
Corporation	1%

2. Age Group Breakdown:

Under 25	4%
25-34	16%
35-44	19%
45-54	22%
55-64	22%
Over 65	17%

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

Year	7%
1-2 Years	12%
2-5 Years	25%
Over 5 Years	26%
Over 10 Years	28%
No Response	2%

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

Broker	18%
Lowe's Employee	16%
Lowe's Shareholder	6%
Lowe's Financial Reports	15%
Media Articles	26%
Other	17%
No Response	2%

5. Investment Objectives:

Capital Appreciation	43%
Dividend Income	4%
Some of Both	39%
No Opinion	14%

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

Long-term profit on my original investment	15%
When interest rates subside, Lowe's price may recover	13%
Dividends on original investment are satisfactory	2%
A loss on my investment and am waiting a recovery	13%
Other	9%
No Answer	32%
More than one of the above	16%

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

Shareholder	54%
Security Analyst	12%
Financial Advisor	8%
Stockbroker	5%
Trade Media	1%
Financial Press	2%
Financial Institution	2%
Lowe's Employee	4%
Other	12%

8. Which section of our January 31, 1979 Annual Report did you like best?

All	37%
To Our Shareholders	2%
People and New Organization	1%
The Marketing Mix	1%
Market Dimensions	2%
Feature Story	3%
Financial Report	6%
21-Year Prologue	4%
Other	9%
More Than One	34%
Shareholder Report	1%

9. How much of the January 31, 1979 Annual Report did you read?

Cover to Cover	31%
Almost every page	17%
Most of it	21%
Half	9%
Only the highlights	14%
Gave it a quick glance	6%
No Response	2%

10. Overall Judgment of the Report:

Excellent	68%
Good	21%
Average	5%
Marginal	1%
No Response	5%

Lowe's Quarterly Stock Price Range — 2

Fiscal Year Ended: Jan. 31, 1980:

	High	Low
Fourth Quarter—NYSE	$18.375	$17.00

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

Sources: *Wall Street Journal*, National Association of Securities Dealers

Shareholder Census — 3

State	Holders	Shares
Alabama	83	95,894
Alaska	2	284
Arizona	12	3,028
Arkansas	3	270
California	67	317,726
Colorado	6	1,424
Connecticut	57	105,735
Delaware	35	24,352
District of Columbia	29	16,795
Florida	131	90,950
Georgia	149	54,535
Hawaii	1	300
Idaho	2	20,005
Illinois	77	440,570
Indiana	31	2,962
Iowa	5	1,111
Kansas	11	73,852
Kentucky	55	7,183
Louisiana	38	4,590
Maine	4	1,392
Maryland	117	50,316
Massachusetts	125	246,566
Michigan	57	97,484
Minnesota	25	83,759
Mississippi	40	15,908
Missouri	37	41,367
Montana	4	600
Nebraska	9	20,169
Nevada	2	300
New Hampshire	9	4,575
New Jersey	97	19,031
New Mexico	3	1,109
New York	218	5,764,685
North Carolina	2,326	1,698,653
North Dakota	2	60
Ohio	99	107,701
Oklahoma	6	7,838
Oregon	5	15,855
Pennsylvania	98	77,441
Rhode Island	93	128,314
South Carolina	235	66,638
South Dakota	0	—
Tennessee	168	108,242
Texas	46	188,369
Utah	1	30
Vermont	5	18,473
Virginia	409	246,166
Washington*	9	2,853
West Virginia	61	20,505
Wisconsin	10	10,423
Wyoming	0	—
Canada	17	20,346
Foreign	14	6,294
Employees in Profit-Sharing Trust*	2,324	2,103,942
Employees in Stock Ownership Trust*	6,142	585,156
Total	11,287	13,022,126

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

Report of Audit Committee

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

The Audit Committee of the Board of Directors, which met three times during the year, after its appraisal and review of the closing of the Company's books for Fiscal 1979, is glad to be able to give you its assurance that Lowe's records are accurate and effective indicators of the Company's financial position.

The general ledger and accounting systems are in excellent condition with manually-prepared records reduced to a minimum. The controls and security for these systems are in good condition.

The independent certified public accounting firm of J. A. Grisette & Co., Lowe's auditors, have provided excellent objective and independent review of the statements produced by the Company. We believe the progress accomplished by the Company's accounting, internal audit, and electronic data processing personnel has improved the effectiveness of the independent audit.

We are appreciative of the helpfulness and cooperation of the Company's officers and employees, and the internal auditors.

Submitted by:

Robert G. Schwartz

Gordon E. Cadwgan, Chairman
April 15, 1980

Report of Independent Certified Public Accountants

J.A.Grisette & Co. CERTIFIED PUBLIC ACCOUNTANTS

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

We have examined the consolidated balance sheets of Lowe's Companies, Inc. and subsidiaries as of January 31, 1980 and 1979, and the related consolidated statements of current and retained earnings and changes in financial position for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Lowe's Companies, Inc. and subsidiaries as of January 31, 1980 and 1979, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

J A Grisette & Co

Lenoir, North Carolina
March 6, 1980

Lowe's Financial Strategies

Shown in Chart A is the sales growth trend at Lowe's, up an average 24% per year from 1975 through 1979. This growth rate is higher than the longer range growth rates shown in line 5, Page 57. It is also rather persistent despite several cycles in the economy, and is attributable to the marketplace acceptance of Lowe's merchandise and services, and to the geographic expansion which has been continued. It is also obviously due in part to inflation, but since the inflation rate for our merchandise last year was just under half that registered by the Consumer Price Index, our sales growth represents real unit gains.

Chart B delineates net earnings as a percentage of sales during the last five years. Net return on sales measures the efficiency of the sales organization. It is affected by sales volume, customer and product mix, and income statement factors—margin rates, fixed and variable expenses, and tax rates. The rates shown here for 1978 and 1979 were affected by the change to LIFO inventory accounting for these two years. A better, restated, historical comparison is presented in line 19, Page 57.

Management's policy of earnings application is portrayed in Chart C and a policy change is clearly shown. Through 1975, our policy was to increase the cash dividends steadily, but slowly, and more slowly than earnings growth, in order to keep retained earnings growing as fast as possible. That policy has been changed, to align our dividend growth rate more closely with our earnings growth rate, and with our cash flow growth rate as shown in line 14, Page 57.

Let us now consider Balance Sheet (Page 45) Strategies and Management. Two major areas for financial policy, one for each side of the Balance Sheet, have guided Lowe's growth. First, for the Assets side, we concern ourselves with the structural balance of the various Asset components which contribute to our profits and growth. Charts A and B on Page 44 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 1975 through 1979, Inventory and Receivables have been maintained at an average of two-thirds of total Assets. This heavy proportion in these two Assets, coupled with their rates of turnover, has enabled us to maintain our rate of total Asset Turnover (line 18, Page 57), a major factor in our consistently high rate of Return on Shareholders' Equity.

Inventory is the single most important Asset to a company like Lowe's. Our fundamental mission is the retail marketing of hard goods, not retail financing and not real estate investment. Inventory is the raw material of profitability, and it rightly maintains its major proportion of Assets. Lowe's Sales to Inventory ratio—Total Sales divided by Average Inventory at cost—was 7.9 times in 1979. This ratio, as well as the proportions shown in Charts A and B, were affected by the LIFO accounting change discussed earlier.

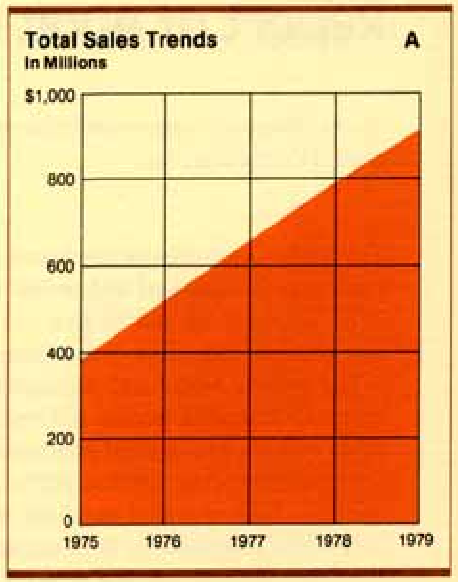
Accounts Receivable occupy the next largest portion of total Assets and are an essential marketing service to our professional customers. Their average tenure on the ledgers varies seasonally. Although we offer credit terms to our retail customers, these contracts are sold daily to finance companies on a non-recourse basis. These credit sales are therefore like cash sales to Lowe's—from the dual standpoints of risk and cash flow—and are not carried in Receivables.

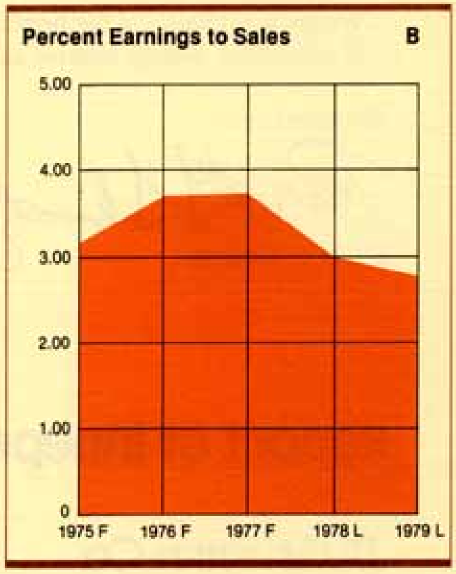
Our Receivables actually decreased by almost $400,000, and declined about 3% of total assets. The $66.4 million on January 31, 1980 was equal to 63% of sales to Professional Buyers during the preceding 90 days, compared to 66% one year ago, and 72% two years ago.

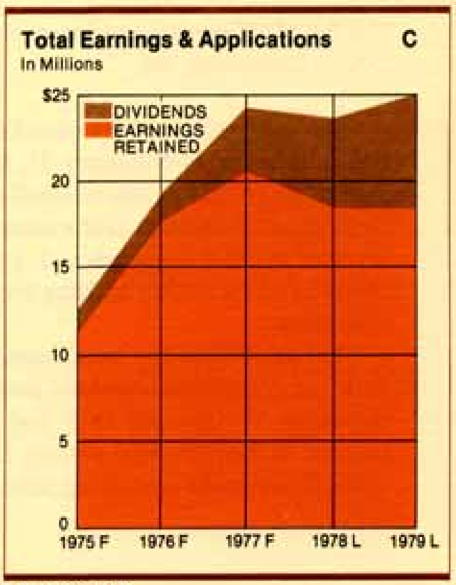
This performance and the decline in allowance for doubtful accounts from 5.8% of gross total receivables to 5.3% this year reflects an excellent job by our Credit Management, a truly superior department.

Fixed Assets did not change in % of total Assets this year, due to a slowing of store expansion. Line 28 on Page 57 presents long-term trends.

All Other Assets doubled, to 9% of total, due to the comfortable growth in the Company's cash position.







F: FIFO Accounting
L: LIFO Accounting

Consolidated Statements of Current and Retained Earnings

LOWE'S COMPANIES, INC. AND SUBSIDIARIES
Fiscal years ended January 31 of following calendar years
(In thousands, except per share and percent data)

	% change	Fiscal 1979	% of sales	Fiscal 1978	% of sales
Current earnings:					
Net sales	14	$904,651	100.0	$793,125	100.0
Cost of sales, buying, warehousing, and occupancy	15	741,891	82.0	647,178	81.6
Gross profit	12	162,760	18.0	145,947	18.4
Expenses:					
Selling, general, and administrative	15	85,860	9.5	74,804	9.4
Depreciation	16	10,064	1.1	8,714	1.1
Employee retirement benefits (Note 7)	37	10,226	1.1	7,488	1.0
Provision for bad debts	(35)	2,262	.3	3,474	.4
Interest and loan expense	25	7,017	.8	5,602	.7
Total expenses	15	115,429	12.8	100,082	12.6
Pre-tax earnings	3	47,331	5.2	45,865	5.8
Provision for income taxes (Note 6)	1	22,376	2.5	22,141	2.8
Net earnings	5	$ 24,955	2.7	$ 23,724	3.0
Earnings per share	5	$ 1.92		$ 1.82	
Dividends per share	25	$ .50		$ .40	
Shares outstanding		13,022		13,022	
Retained earnings:					
Beginning of year	17	$128,878		$110,363	
Additions:					
Net earnings	5	24,955		23,724	
Less cash dividends	25	6,511		5,209	
Net additions		18,444		18,515	
End of year	14	$147,322		$128,878	

See accompanying notes to consolidated financial statements.

Lowe's Financial Strategies

The second major financial policy strategy in Balance Sheet management deals with the Liabilities and Shareholders' Equity side, where we are specifically concerned with the financing of total Assets. The most important components here are Shareholders' Equity, Accounts Payable, Long-Term Debt, and Other Liabilities, Charts B and C show the proportions and trends of these major Balance Sheet elements for the last five years. Again, the LIFO switch affects these charts, and 1975 through 1977 are comparable years, but 1978 and 1979 are only really comparable to each other. Also again, Page 57 presents a historical balance sheet comparison.

Let's discuss Equity first. Since it was 53% of total Liabilities and Equity on January 31, 1980, it was obviously financing 53% of total Assets. Equity continues to finance the major percentage of total Assets, and very consistently in the five years shown. Still, Equity cannot finance the total Assets required to maximize Lowe's operations and opportunities. Besides shareholders' money, other peoples' money is needed and obtained, some on a short-term basis and some long-term. Leverage, as used here, is computed by dividing total Assets by Shareholders' Equity. Trends in Leverage are shown in the small table at right, and on lines 21 and 39 on Pages 57-59.

As shown on Pages 58 and 59, prior to 1973 Accounts Payable were the second largest portion of this half of the Balance Sheet. Payables are a function of Inventory purchases and the level will fluctuate as a percent of Inventory and as a source of financing Assets, depending upon the yearly and seasonal patterns in the merchandise mix. So the switch to a January 31 fiscal-year close has deemphasized Payables' proportion. It is interesting to note that from 1978 to 1979, there were such similar trends in credit extended to Lowe's, called Payables, and credit extended by Lowe's, called Receivables. In fact, the similarity in the trends of Payables and Receivables over the past five years provides insight into management of these sources and uses of short-term credit. However, the future of Payables as a source of financing Assets, in these credit intensive and expensive times, is not bright.

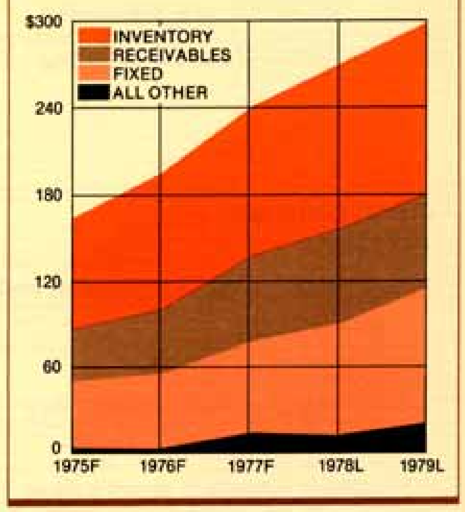
With the knowledge that Long-Term Debt was financing 26% of total Assets at the end of Fiscal 1973, fluctuating percentages in Chart B need explaining. These changes in % of total have arisen from changes in our store expansion policy, and recently, the soaring cost of credit. As perspective, at the end of Fiscal 1970, Lowe's owned half of our 64 stores and leased the other half. Between 1970 and the end of Fiscal 1975, virtually all of the stores we opened were built by us, according to a standard design, and owned by Lowe's. And since these non-turning Fixed Assets are a long-term investment, they were financed with Long-Term Debt. With the onset of the recession in 1975, and the opportunities presented thereby to take over existing facilities at attractive rentals, we changed our expansion strategy. In 1976 and 1977, most of the new stores opened were leased facilities, and since few of these qualify as so-called capital leases, Fixed Assets and Long-Term Debt declined as a percent of total. In 1978 and 1979 we began again to build and to own the major portion of our new store facilities. These are normally financed over a 15-year period, through long-term borrowings. However, financial management is awaiting more appropriate interest levels. Hence the drop from 24% to 19%.

The ratio derived by dividing Equity by Long-Term Debt is an oft-used evaluatory measure for capital structure, and the trends therein, shown in the small table at right, reflect a consistent and conservative good balance in Lowe's financing base. As noted above, when interest rates decline, so will the 2.84 ratio.

Other Liabilities are various current obligations, including Income Taxes payable and employee retirement benefits, and were financing 13% of our Assets on January 31.

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

Assets Trends & Composition A



Leverage Factor	1.98	1.92	1.98	1.92	1.89

Balance Sheet Trends B

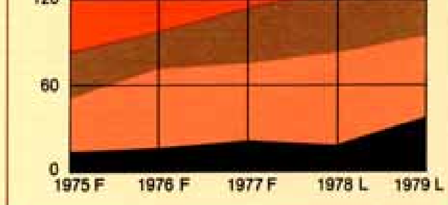
% of Total*

	1975 F	1976 F	1977 F	1978 L	1979 L
Inventory:	48%	47%	43%	41%	39%
Receivables:	21%	24%	25%	25%	22%
Fixed Assets:	29%	28%	27%	30%	30%
All Other:	2%	1%	5%	4%	9%
Totals:	100%	100%	100%	100%	100%
Equity:	51%	52%	51%	52%	53%
Payables:	18%	12%	16%	17%	15%
Debt:	20%	22%	21%	24%	19%
All Other:	8%	8%	9%	6%	13%
Totals:	100%	100%	100%	100%	100%

*Totals Rounded

Equity ÷ Debt Ratio	2.57	2.37	2.38	2.17	2.84

Equity and Liabilities Trends & Composition C



F: FIFO Accounting
L: LIFO Accounting

Consolidated Balance Sheets

LOWE'S COMPANIES, INC. AND SUBSIDIARIES
At fiscal year end: January 31 of following calendar years
(Thousands of dollars)

	% change	Fiscal 1979	% of total	Fiscal 1978	% of total
ASSETS					
Current assets:					
Cash	145	$ 22,959	7.7	$ 9,362	3.5
Accounts receivable less allowance for doubtful accounts — Fiscal 1979 — $3,717; Fiscal 1978 — $4,102	(1)	66,442	22.2	66,836	24.9
Merchandise inventories (Note 2)	7	118,511	39.5	111,248	41.2
Prepaid income taxes	(100)	—	—	877	.3
Other current assets	232	3,001	1.0	905	.3
Total current assets	12	210,913	70.4	189,228	70.2
Property, improvements, and equipment at cost, less accumulated depreciation (Notes 3 and 4)	11	88,695	29.6	80,096	29.7
Other assets	(22)	291	—	371	.1
Total assets	11	$299,899	100.0	$269,695	100.0
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt (Note 4)	68	$ 4,093	1.4	$ 2,439	1.0
Accounts payable	2	45,567	15.2	44,833	16.6
Employee retirement benefits payable (Note 7)	60	9,785	3.3	6,115	2.3
Other current liabilities	(5)	10,118	3.3	10,694	3.9
Income taxes payable (Note 6)		15,127	5.0	—	—
Total current liabilities	32	84,690	28.2	64,081	23.8
Long-term debt, excluding current maturities (Note 4)	(14)	56,112	18.7	64,961	24.0
Total liabilities	9	140,802	46.9	129,042	47.8
Commitments and contingencies (Notes 8 and 9)					
Shareholders' equity (Note 4):					
Common stock — $.50 par value, authorized 20,000,000 shares, issued and outstanding 13,022,126		6,511	2.2	6,511	2.4
Capital in excess of par value		5,264	1.8	5,264	2.0
Retained earnings	14	147,322	49.1	128,878	47.8
Total shareholders' equity	13	159,097	53.1	140,653	52.2
Total liabilities and shareholders' equity	11	$299,899	100.0	$269,695	100.0

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

LOWE'S COMPANIES, INC. AND SUBSIDIARIES
Fiscal years ended January 31 of following calendar years.
(Thousands of dollars)

	Fiscal 1979	Fiscal 1978
Funds provided:		
Net earnings	$24,955	$23,724
Charge to earnings which did not use funds— depreciation	10,064	8,714
Funds from operations	35,019	32,438
Long-term debt borrowings	10,553	16,625
Disposals of property	857	1,052
Other sources	80	81
Total funds provided	46,509	50,196
Funds applied:		
Dividends paid	6,511	5,209
Properties acquired	19,520	25,429
Current maturities and repayment of long-term debt	19,402	2,975
Total funds applied	45,433	33,613
Increase in working capital	$ 1,076	$16,583
Changes in components of working capital:		
Current assets:		
Cash	$13,597	$ (1,585)
Accounts receivable	(394)	5,368
Merchandise inventories	7,263	8,330
Prepaid income taxes	(877)	877
Other current assets	2,096	(402)
Increase in current assets	21,685	12,588
Current liabilities:		
Notes payable	—	(5,000)
Current maturities of long-term debt	1,654	569
Accounts payable	734	5,885
Employee retirement benefits payable	3,670	1,063
Other current liabilities	(576)	2,241
Income taxes payable	15,127	(8,753)
Increase (decrease) in current liabilities	20,609	(3,995)
Increase in working capital	$ 1,076	$16,583

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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

Note 1—Summary of Significant Accounting Policies:

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

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

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

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

PROPERTY, IMPROVEMENTS, AND EQUIPMENT—Property, improvements, and equipment are stated at cost. Major additions are capitalized and depreciated; maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently. Upon disposal, cost of properties and related accumulated depreciation are removed from the accounts. Gains and losses on items disposed of are reflected in earnings. The same policy applies to leasehold improvements.

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

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

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

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

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

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

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

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

Note 2—Merchandise Inventories:

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

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

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

Note 3—Properties and Accumulated Depreciation:

Properties and accumulated depreciation are summarized below by major classes with estimated lives in years as follows: buildings, 20 to 50; store and office equipment, 5 to 10; transportation equipment, 3 to 7; and leasehold improvements, 10 to 50.

	January 31, 1980		January 31, 1979	
(Thousands of dollars)	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$ 12,569	$ —	$ 11,212	$ —
Buildings	57,014	10,684	48,871	8,601
Store and office equipment	22,075	11,175	18,612	8,677
Transportation equipment	25,210	16,128	21,674	12,558
Leasehold improvements	14,029	4,215	13,236	3,673
	$130,897	$42,202	$113,605	$33,509

Note 4—Long-Term Debt:

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

	January 31, 1980	January 31, 1979
	(Thousands of dollars)	
Insurance company loans:		
Unsecured notes maturing annually, 1980 through 1992, interest rates of 8¼%	$21,000	$21,000
Secured notes maturing quarterly through 1993, interest rates of 5⅝% to 9%	33,103	35,061
Bank loans:		
Unsecured note maturing in 1980, interest rate at ¼% above prime	—	5,000
Secured notes maturing quarterly through 1994, interest rates 7% and prime plus a maximum of 2%	3,351	3,155
Mortgage company loan:		
Secured note maturing monthly through 1998, interest rate of 9⅝%	—	299
Other loans:		
Unsecured notes maturing 1982, interest rate of 8%	55	50
Obligations under capital leases:		
Maturing serially through 1991	1,495	1,600
Maturing monthly through 1994	1,201	1,235
Total long-term debt	60,205	67,400
Less current maturities	4,093	2,439
Long-term debt less current maturities	$56,112	$64,961

Notes to Consolidated Financial Statements (continued)

Debt maturities (in millions), for the next five years exclusive of obligations under capital leases (see Note 8), are as follows: 1980—$3.950; 1981—$4.047; 1982—$4.200; 1983—$4.994; 1984—$5.166.

The agreement covering the insurance company loans places certain requirements as to the financial condition to be maintained, restricts other borrowing, and limits the payment of dividends. After giving effect to the most restrictive provisions, approximately $28.1 million of consolidated retained earnings are available for payment of dividends.

Deeds of trust covering store, central office, and warehouse properties with a depreciated cost of $37 million have been pledged as collateral for secured insurance company loans. Store properties having a depreciated cost of $4 million are pledged as collateral for secured bank loans.

Under terms of a revolving credit agreement with a bank, the Company may borrow up to $10 million with interest at 1/4% above prime. Such borrowings are unsecured with interest payable quarterly. There are no compensating balance or commitment fee arrangements with regard to the revolving credit agreement. There were no borrowings outstanding under this agreement at January 31, 1980, and $5 million at January 31, 1979.

Terms of the insurance company loan agreement require maturities of borrowings under the revolving credit agreement of not more than three years after date incurred.

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

At January 31, 1980, the Company had an informal line of credit agreement with its principal bank which provides for short-term unsecured borrowings up to $30 million, none of which was used at January 31, 1980 and 1979. There are no compensating balance or commitment fee arrangements with regard to the agreement.

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

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

Note 6—Income Taxes:

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

	Year ended January 31, 1980		1979	
	(Thousands of dollars)			
	Amount	Percent	Amount	Percent
Federal tax at statutory rates	$21,772	46.0	$22,015	48.0
State income taxes—net of federal tax benefit	1,420	3.0	1,348	2.9
Investment tax credits	(816)	(1.7)	(1,165)	(2.5)
Other	—	—	(57)	(.1)
Total provision for income taxes	$22,376	47.3	$22,141	48.3

Note 7—Employee Retirement Plans:

In 1957, the Company established Lowe's Companies Profit-Sharing Plan and Trust, a qualified noncontributory employee profit-sharing plan, for all employees meeting minimum length of service requirements. The plan provided generally for a contribution of 15% of eligible compensation of participating employees. Contributions were discontinued effective December 31, 1977. Accounts of members in the plan became fully vested at that time, and the trust remains in effect for the benefit of those members. The trust holds approximately 16% of the outstanding shares of the Company as of January 31, 1980, and is the largest shareholder.

On December 19, 1977, the Board of Directors adopted an Employee Stock Ownership Plan effective as of January 1, 1978. This plan, like the profit-sharing plan, is a multi-employer plan and one trust serves the parent and the subsidiaries. The trust holds approximately 5% of the outstanding stock of the Company as of January 31, 1980. The cost of the plan is met by annual contributions by each employer to the trust in an amount determined annually by the Board of Directors. A contribution of 15% of eligible compensation, as defined, was authorized for the fiscal years ended January 31, 1980 and 1979.

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

Note 8—Long-Term Leases:

There were 112 real estate leases on January 31, 1980, principally for store locations. Of these leases, 26 represent land leases on which the Company has erected substantially all improvements, and 68 locations include both land and lessor improvements. Generally the leases will expire during the next ten years. In the normal course of business, it is anticipated that a majority of the leases will be renewed at expiration by Company option or replaced by other properties. Purchase options available for leased properties at 12 of the store locations would approximate $2.6 million if exercised under the current provisions of the leases. Six locations are leased from Lowe's Companies Profit-Sharing Plan and Trust. In addition to the foregoing properties leased from others, the Company's real estate subsidiary owns 132 store locations and 7 office and auxiliary locations which are currently in operation.

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

	January 31, 1980	January 31, 1979
	(Thousands of dollars)	
Land	$ 67	$ 67
Buildings	2,702	2,702
Store equipment	42	42
Office equipment	5	5
Transportation and other equipment	144	144
Total capitalized leases	2,960	2,960
Less accumulated amortization	750	559
Net property under capital leases	$2,210	$2,401

The Company also leases certain data processing and communications equipment. Purchase options available under these leases would amount to approximately $510,000 if exercised at the present time.

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

Year ended January 31,	Operating leases: Real estate	Operating leases: Equipment	Capital leases	Total
	(Thousands of dollars)			
1981	$1,740	$ 506	$ 375	$ 2,621
1982	1,444	362	378	2,184
1983	968	297	375	1,640
1984	641	296	372	1,309
1985	421	25	368	814
Later years	1,631	—	2,677	4,308
Total minimum lease payments	$6,845	$1,486	$4,545	$12,876
Less amount representing interest			1,849	
Present value of minimum lease payments under capital leases			2,696	
Less current maturities			143	
Present value of minimum lease payments, less current maturities			$2,553	

Gross rental expenses charged to earnings are as follows:

	Year ended January 31, 1980	Year ended January 31, 1979
Real estate	$1,988	$1,776
Equipment	830	935
Total	$2,818	$2,711

Note 9—Commitments and Contingencies:

The Company had purchase commitments as of January 31, 1980, of approximately $2.3 million for land, buildings, and construction of store facilities, and $1.6 million for equipment.

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

Note 10—Quarterly Financial Data (Unaudited):

Summarized quarterly financial data for years ended January 31, 1980 and 1979, are as follows:

	Three months ended April 30	July 31	October 31	January 31
Fiscal 1979	(Thousands of dollars, except per share data)			
Net sales	$189,089	$267,086	$257,568	$190,908
Gross profit	$ 35,042	$ 48,970	$ 46,785	$ 31,963
Net earnings	$ 3,895	$ 9,303	$ 8,432	$ 3,325
Earnings per share	$ .30	$ .71	$ .65	$ .26
Fiscal 1978				
Net sales	$167,340	$227,837	$222,418	$175,530
Gross profit	$ 32,015	$ 42,055	$ 40,833	$ 31,044
Net earnings	$ 4,639	$ 8,116	$ 6,801	$ 4,168
Earnings per share	$ .35	$ .63	$ .52	$ .32

Notes to Consolidated Financial Statements (continued)

Note 11—Supplemental Information on the Effects of Changing Prices (Unaudited):

Statement of earnings adjusted for changing prices:

	Historical dollars	Constant dollars	Current cost dollars
		(Dollars in thousands)	
Net sales	$904,651	$904,651	$904,651
Cost of sales	741,891	742,259	742,259
Gross profit	162,760	162,392	162,392
Expenses:			
Selling, general, and administrative	85,860	85,860	85,860
Depreciation	10,064	12,596	12,662
Employee retirement benefits	10,226	10,226	10,226
Provision for bad debts	2,262	2,262	2,262
Interest and loan expense	7,017	7,017	7,017
Total expenses	115,429	117,961	118,027
Pre-tax earnings	47,331	44,431	44,365
Provision for income taxes	22,376	22,376	22,376
Net earnings	$ 24,955	$ 22,055	$ 21,989
Effective income tax rate	47.3%	50.4%	50.4%
Other Information:			
Purchasing power gain from holding net monetary liabilities during the year		$ 6,664	$ 6,664
*Increase in specific prices (current costs) of inventories and property, improvements, and equipment held during the year			19,527
Effect of increase in general price level of inventories and property, improvements, and equipment			30,527
Excess of increase in the general price level over increase in specific prices			$ 11,000

*At January 31, 1980, current cost of inventory was $136,062 (historical amount, $118,511) and current cost of property, improvements, and equipment, net of accumulated depreciation, was $123,627 (historical amount, $88,695).

Five-year comparison of selected supplementary financial data adjusted for effects of changing prices.
In average 1979 constant dollars.

	Year ended January 31,				
	1980	1979	1978	1977	1976
	(Dollars in thousands, except per share data)				
Net sales:					
Historical dollars	$904,651	$793,125	$661,625	$519,395	$388,254
Constant dollars	$904,651	$885,132	$796,698	$666,845	$525,853
Cash dividends declared per common share:					
Historical dollars	$ .50	$ .40	$ .30	$ .13	$ .09
Constant dollars	$ .50	$ .44	$ .36	$ .17	$ .12
Market price per common share at year-end:					
Historical dollars	$ 17.00	$ 19.38	$ 19.88	$ 24.88	$ 33.00
Constant dollars	$ 16.09	$ 20.80	$ 23.33	$ 31.18	$ 43.49
Average Consumer Price Index-Urban (1)	219.7	196.9	182.5	171.2	162.1

Other information for the year ended January 31, 1980:	Historical dollars	Constant dollars	Current cost dollars
Net earnings	$ 24,955	$ 22,055	$ 21,989
Earnings per share	$ 1.92	$ 1.69	$ 1.69
Net assets (shareholders' equity) at year-end	$159,097	$211,158	$200,562
Purchasing power gain from holding net monetary liabilities during the year	$ —	$ 6,664	$ 6,664
Excess of increase in the general price level over increase in specific prices	$ —	$ —	$ 11,000

(1) Base period, 1967 = 100

Explanatory Notes to Supplemental Information:

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

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

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

Notes to Consolidated Financial Statements (continued)

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

1. Historical cost basis—Earnings reported on the historical cost basis of accounting are the same amounts as reported in the primary financial statements.
2. Constant dollar accounting—Earnings reported on the constant dollar method represent income and expenses stated in constant dollars adjusted for general inflation. General inflation has been measured by the average level of the Consumer Price Index-Urban (CPI-U) for the period February 1, 1979, through January 31, 1980. Under this measurement method, historical amounts of depreciation expense have been increased to give effect to the increase in the CPI-U level which has occurred since the date properties were acquired. In addition, cost of sales, under the LIFO method, has been increased to reflect prior year liquidated inventory layers into current year constant dollars. Such increase approximated $368,000. Sales and expenses already reflect approximate average current year constant dollars and, accordingly, are the same as amounts reported in historical financial statements.
3. Current cost accounting—Earnings reported under current cost accounting are intended to give effect to current cost measures of inventories and properties at their current cost as of the balance sheet date; cost of sales is measured at the current cost on the date of sale; and depreciation expense is computed on various indexes as described below. Cost of sales has been determined under the LIFO method to be the same as that for constant dollar accounting.

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

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

INCREASE (DECREASE) IN CURRENT COSTS OF INVENTORIES AND PROPERTIES—Increase of specific prices of inventories and properties held during the year are not included in net earnings. Current cost increases in inventories and properties are reduced by the effect of general inflation measured by multiplying the beginning and end of the year current cost balances of inventories and properties by the ratio of the average CPI-U for the year ended January 31, 1980, over the year-end CPI-U for the respective periods. The increase (decrease) in specific prices over increase in the general price level consists of the following:

	Inventories	Properties	Total
Current cost increases:			
Realized	$ 368	$ 2,598	$ 2,966
Unrealized	7,886	8,675	16,561
Total	8,254	11,273	19,527
Less general inflation	16,129	14,398	30,527
Current cost increase (decrease) net of general inflation	$(7,875)	$(3,125)	$(11,000)

FASB Number 33 does not require a reduction in unrealized current cost increases for income taxes that would become payable if such increases were realized. Based on present state and federal tax rates, approximately $25.8 million of income taxes would be applicable to unrealized current cost increases ($52.5 million at January 31, 1980) of which $7.8 million is applicable to the year ended January 31, 1980.

CURRENT COST MEASUREMENTS—Current cost amounts of inventories were estimated by using FIFO values adjusted for price changes which were reflected in the Company's perpetual inventory records. Current cost of sales was determined using the LIFO method (same method used in historical statements) adjusted for prior year layer liquidation, resulting in an increase in current cost of sales of $368,000.

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

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

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

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

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

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

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

Management Analysis of the Summary of Operations

Summary of Operations

(In thousands, except per share data)

	Year ended January 31,			Six months ended January 31,		Year ended July 31,		
	1980	**1979** (1)	**1978** (2)	**1978**	**1977** (2)	**1977**	**1976**	**1975**
Net sales	$904,651	$793,125	$661,625	$322,032	$254,765	$594,358	$465,052	$340,882
Cost of sales, buying, warehousing, and occupancy	741,891	647,178	528,830	256,349	203,607	476,087	370,058	273,384
Gross profit	162,760	145,947	132,795	65,683	51,158	118,271	94,994	67,498
Selling, general, and administrative expenses	85,860	74,804	61,224	31,938	26,030	55,316	45,386	34,564
Depreciation	10,064	8,714	6,744	3,504	2,972	6,212	4,976	4,177
Employee retirement benefits	10,226	7,488	7,721	4,063	2,718	6,376	4,870	3,368
Provision for bad debts	2,262	3,474	4,116	1,555	1,162	3,723	2,457	2,050
Interest and loan expense	7,017	5,602	4,436	2,082	1,802	4,157	3,010	2,528
Total expenses	115,429	100,082	84,241	43,142	34,684	75,784	60,699	46,687
Pre-tax earnings	47,331	45,865	48,554	22,541	16,474	42,487	34,295	20,811
Provision for income taxes:								
State	2,629	2,593	2,782	1,241	906	2,448	1,959	1,357
Federal	19,747	19,548	21,079	9,806	7,336	18,608	15,025	8,962
Total income taxes	22,376	22,141	23,861	11,047	8,242	21,056	16,984	10,319
Net earnings	$ 24,955	$ 23,724	$ 24,693	$ 11,494	$ 8,232	$ 21,431	$ 17,311	$ 10,492
Earnings per common share	$ 1.92	$ 1.82	$ 1.90	$ .88	$ .63	$ 1.65	$ 1.33	$ .81
Weighted average shares outstanding	13,022	13,022	13,022	13,022	13,022	13,022	13,022	13,022
Dividends paid per share	$ .50	$ .40	$ .30	$ .17	$ .08	$ .21	$ .10	$ .09
Investment tax credit recognized	$ 816	$ 1,165	$ 842	$ 378	$ 138	$ 602	$ 406	$ 255

Notes to summary of operations:

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

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

Sales Analysis By Product Group

1

Thousands of Dollars

	Years Ended					Six Month Interim Periods Ended			Year Ended
	Jan. 31, 1980		Jan. 31, 1979		Jan. 31, 1978	Jan. 31, 1978		Jan. 31, 1977	July 31, 1977
	% Chg.[1]	Amount	% Chg.[1]	Amount	Amount	% Chg.[1]	Amount	Amount	Amount
1. Structural Lumber	+13%	$190,070	+26%	$168,067	$133,887	+39%	$ 63,699	$ 45,828	$116,016
2. Building Materials & Hardware	+12%	415,287	+19%	371,778	312,125	+29%	155,153	119,867	276,839
3. Plumbing, Electrical, Heating & Cooling	+20%	81,110	+13%	67,560	59,946	+21%	27,196	22,508	55,258
4. Kitchens & Home Laundry	+28%	49,394	+21%	38,659	31,827	+14%	15,618	13,651	29,860
5. House, Yard, & Farm Supplies	+26%	63,987	+21%	50,615	41,801	+17%	17,164	14,679	39,316
6. Home Entertainment	+11%	19,408	+21%	17,519	14,494	− 4%	10,107	10,542	14,929
7. Mobile Homes	−32%	316	−78%	464	2,135	−51%	630	1,293	2,798
8. Special Order Sales	+ 8%	85,079	+20%	78,463	65,410	+23%	32,465	26,397	59,342
Totals	+14%	$904,651	+20%	$793,125	$661,625	+26%	$322,032	$254,765	$594,358

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

Sales Analysis By Customer Group

2

Thousands of Dollars

	Years Ended					Six Month Interim Periods Ended			Year Ended
	Jan. 31, 1980		Jan. 31, 1979		Jan. 31, 1978	Jan. 31, 1978		Jan. 31, 1977	July 31, 1977
	% Chg.[1]	Amount	% Chg.[1]	Amount	Amount	% Chg.[1]	Amount	Amount	Amount
Professional Buyers	+ 9%	$511,472	+14%	$468,983	$411,613	+31%	$198,667	$151,083	$364,029
Retail Customers	+21%	393,179	+30%	324,142	250,012	+19%	123,365	103,682	230,329
Totals	+14%	$904,651	+20%	$793,125	$661,625	+26%	$322,032	$254,765	$594,358

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

Sales Analysis By Store: Established Stores vs. New Stores

3

Thousands of Dollars

	Years Ended			Six Month Interim Periods Ended		Year Ended
	Jan. 31, 1980	Jan. 31, 1979	Jan. 31, 1978	Jan. 31, 1978	Jan. 31, 1977	July 31, 1977
Number of Stores Open	209*	199*	180*	180*	153	175
Total Sales	$904,651	$793,125	$661,625	$322,032	$254,765	$594,358
% Change Total Sales	+14.1%	+19.9%	+27.4%	+26.4%	+26.9%	+27.8%
Number of Established Stores[1]	196*	179*	153*	153*	141	150
Sales of Established Stores	$893,656	$777,340	$632,413	$299,830	$244,158	$583,615
Sales of Same Stores Previous Year	$793,125	$661,625	$519,395	$254,765	$200,229	$465,052
% Change Established Store Sales	+12.7%	+17.5%	+21.8%	+17.7%	+21.9%	+25.5%
Number of New Stores	13	20	27	27	13	25
Sales of New Stores	$ 10,995	$ 15,785	$ 29,212	$ 22,022	$ 10,607	$ 10,743
% Added by New Store Sales	+ 2.8%	+ 2.4%	+ 5.6%	+ 8.7%	+ 5.3%	+ 2.3%

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

Cost and Earnings Analysis

4

	Years Ended					Six Month Interim Periods Ended			Year Ended
	% Chg.[1]	% of Total[2] Jan. 31, 1980	% Chg.[1]	% of Total[2] Jan. 31, 1979	% of Total[2] Jan. 31, 1978	% Chg.[1]	% of Total[2] Jan. 31, 1978	% of Total[2] Jan. 31, 1977	% of Total[2] July 31, 1977
Net Sales	+14%	100.00%	+20%	100.00%	100.00%	+26%	100.00%	100.00%	100.00%
Cost of Sales[3]	+15%	82.01%	+22%	81.60%	79.93%	+26%	79.60%	79.92%	80.10%
Gross Profit	+12%	17.99%	+10%	18.40%	20.07%	+28%	20.40%	20.08%	19.90%
Expenses:									
S,G, & A, Advertising	+15%	9.49%	+22%	9.43%	9.25%	+23%	9.92%	10.22%	9.31%
Depreciation	+16%	1.11%	+29%	1.10%	1.02%	+18%	1.09%	1.16%	1.05%
Employee Retirement Benefits	+37%	1.13%	− 3%	.94%	1.17%	+50%	1.26%	1.07%	1.07%
Provision for Bad Debts	−35%	.25%	−16%	.44%	.62%	+34%	.48%	.45%	.63%
Interest and Loan Cost[4]	+25%	.78%	+26%	.71%	.67%	+16%	.65%	.71%	.70%
Total Expenses	+15%	12.76%	+19%	12.62%	12.73%	+24%	13.40%	13.61%	12.75%
Pre-Tax Earnings	+ 3%	5.23%	− 6%	5.78%	7.34%	+37%	7.00%	6.47%	7.15%
Taxes (total)[5]	+ 1%	47.27%	− 7%	48.27%	49.14%	+34%	49.01%	50.03%	49.56%
Net Earnings	+ 5%	2.76%	− 4%	2.99%	3.73%	+40%	3.57%	3.23%	3.61%

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

Management Analysis (continued)

Fiscal 1979 Compared to Fiscal 1978
(Twelve months ended January 31 of following calendar year)

Sales increased in Fiscal 1979 to $904,651,193 from $793,125,313, a 14% increase despite the adverse effect on the home building industry by record-high interest rates. Sales to professional home builders increased 9% while sales to retail customers grew 21%. For further sales breakdown see Tables 1, 2, and 3 on page 54.

Gross profit decreased as a percent of sales from Fiscal 1978 to Fiscal 1979. The major cause of this decrease was competitive pressure on margins, particularly in commodity items, and particularly in the fourth quarter, when interest rates continued to soar, dampening the home building industry. Another contributing factor was an increase in warehousing and distribution expenses impacting cost of goods sold.

Selling, General, Administrative, and Advertising expenses increased about the same as did sales. A larger increase in advertising was offset by tight expense controls in other areas.

Employee Retirement Benefits increased due to salary increases, and due to an accrual adjustment last year necessitated by the change of all subsidiary corporations to a common fiscal year.

Provision for Bad Debts decreased in the year due to several major factors. First, a department was created to aggressively collect previously written-off bad debts. Second, careful control by credit personnel has kept down the increase of actual write-offs. And finally, the provision for future write-offs was lower, due to revision of the accrual percentage after two years of favorable write-off experience.

Interest Expense increased due to the dramatic rise in the prime interest rate and due to a two-year note obtained and repaid within the year.

Provision for income taxes declined relative to pre-tax earnings due to the new federal income tax rate.

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

Sales increased in Fiscal 1978 to $793,125,313 from $661,625,324, a 20% increase as housing and the general economy continued strong. As detailed in Tables 1, 2, and 3 on page 54, the fastest growing components of total sales were lumber products, retail customer purchases, and sales of established stores.

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

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

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

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

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

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

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

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

Quarterly Review of Performance

1979 Sales and Earnings — 1

Dollars in Thousands and % of Total Year

Sales	Quarter	Earnings	Earnings Per Share
$189,090 20.9%	First April 30	$3,895 15.6%	30¢
$267,086 29.5%	Second July 31	$9,303 37.3%	71¢
$257,568 28.5%	Third October 31	$8,432 33.8%	65¢
$190,908 21.1%	Fourth January 31	$3,325 13.3%	26¢

0 10 20 30 40 50 60 70 80 90 100%

Quarterly % Change of Operating Results — 2

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

	Quarter Ended			
	Jan 31 1980	Oct 31 1979	Jul 31 1979	Apr 30 1979
Net Sales	+ 8.8%	+15.8%	+17.2%	+13.0%
Cost of Sales	+ 10.0%	+16.1%	+17.4%	+13.8%
Gross Profit	+ 3.0%	+14.6%	+16.4%	+ 9.5%
Other Expenses:				
S, G, & A, Adv.	+ 9.3%	+ 9.7%	+18.6%	+22.9%
Depreciation	+ .1%	+16.1%	+19.3%	+29.3%
Emp. Benefit	+ 38.4%	+33.9%	+40.5%	+33.8%
Bad Debt Prov.	−197.8%	−22.2%	−23.4%	− 9.0%
Interest Expense	+ .2%	+31.2%	+46.1%	+26.9%
Total	+ 7.1%	+12.2%	+19.8%	+22.9%
Pre-Tax Earnings	− 11.9%	+19.4%	+11.0%	−23.2%
Income Tax Prov.	+ 1.8%	+14.9%	+ 6.6%	−30.2%
Net Earnings	− 20.2%	+24.0%	+14.6%	−16.0%

Quarterly % Analysis of Operating Results — 3

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

	Quarter Ended			
	Jan 31 1980	Oct 31 1979	Jul 31 1979	Apr 30 1979
Net Sales	100.00%	100.00%	100.00%	100.00%
Cost of Sales	83.26%	81.84%	81.67%	81.47%
Gross Profit	16.74%	18.16%	18.33%	18.53%
Other Expenses:				
S, G, & A, Adv.	10.40%	8.90%	8.61%	10.62%
Depreciation	1.37%	.97%	.92%	1.34%
Emp. Benefit	1.21%	1.12%	1.00%	1.25%
Bad Debt Prov.	(.17)	.24%	.33%	.56%
Interest Expense	.80%	.63%	.75%	.97%
Total	13.61%	11.86%	11.61%	14.74%
Pre-Tax Earnings	3.13%	6.30%	6.72%	3.79%
Income Tax Rate	44.31%	48.07%	48.18%	45.67%
Net Earnings	1.74%	3.27%	3.48%	2.06%

Lowe's Customer Sales Profile — 4

Dollars in Thousands, Rounded Totals

	Fiscal 1977[1]		Fiscal 1978		Fiscal 1979		
Category	Sales	% of Total	Sales	% of Total	Sales	% Change[2]	% of Total
1st Qtr.							
PB	$ 94,139	63%	$104,890	63%	$110,607	+ 5%	58%
RC	54,910	37%	62,450	37%	78,483	+26%	42%
Totals	$149,049	100%	$167,340	100%	$189,090	+13%	100%
2nd Qtr.							
PB	$118,807	62%	$134,059	59%	$154,421	+15%	58%
RC	71,737	38%	93,778	41%	112,665	+20%	42%
Totals	$190,544	100%	$227,837	100%	$267,086	+17%	100%
3rd Qtr.							
PB	$113,237	62%	$128,107	58%	$140,625	+10%	55%
RC	68,130	38%	94,311	42%	116,943	+24%	45%
Totals	$181,367	100%	$222,418	100%	$257,568	+16%	100%
4th Qtr.							
PB	$ 85,430	61%	$101,927	58%	$105,895	+ 4%	55%
RC	55,235	39%	73,603	42%	85,013	+15%	45%
Totals	$140,665	100%	$175,530	100%	$190,908	+11%	100%

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

Lowe's Product Sales Profile — 5

Dollars in Thousands, Rounded Totals

	Fiscal 1977[1]		Fiscal 1978		Fiscal 1979		
Category	Sales	% of Total	Sales	% of Total	Sales	% Change[2]	% of Total
1st Qtr.							
A	$ 99,534	67%	$116,947	70%	$127,423	+ 9%	67%
B	49,515	33%	50,393	30%	61,667	+22%	33%
Totals	$149,049	100%	$167,340	100%	$189,090	+13%	100%
2nd Qtr.							
A	$127,834	67%	$154,273	68%	$178,734	+16%	67%
B	62,710	33%	73,564	32%	88,352	+20%	33%
Totals	$190,544	100%	$227,837	100%	$267,086	+17%	100%
3rd Qtr.							
A	$128,503	71%	$155,713	70%	$175,618	+13%	68%
B	52,864	29%	66,705	30%	81,950	+23%	32%
Totals	$181,367	100%	$222,418	100%	$257,568	+16%	100%
4th Qtr.							
A	$ 90,845	65%	$114,653	65%	$125,179	+ 9%	66%
B	49,820	35%	60,877	35%	65,729	+ 8%	34%
Totals	$140,665	100%	$175,530	100%	$190,908	+ 9%	100%

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

Lowe's Store Sales Profile — 6

Dollars in Thousands, Rounded Totals

	Fiscal 1977					Fiscal 1978					Fiscal 1979				
Category	Stores	Sales	Per Store Average	% Change[1]	% of Total[2]	Stores	Sales	Per Store Average	% Change[1]	% of Total[2]	Stores	Sales	Per Store Average	% Change[1]	% of Total[2]
1st Qtr.															
ES[3]	144	$142,288	$ 988.1	+10%	95%	158[5]	$155,272	$ 982.7	− 1%	93%	181[5]	$177,640	$ 981.4	—	94%
NS[4]	15	6,761	450.7	+19%	5%	24	12,068	502.8	+ 12%	7%	19	11,450	602.6	+20%	6%
Totals	159	$149,049	$ 937.4	+10%	100%	182	$167,340	$ 919.5	− 2%	100%	200	$189,090	$ 945.5	+ 3%	100%
2nd Qtr.															
ES	150	$183,651	$1,224.3	+19%	96%	174[5]	$220,528	$1,267.4	+ 4%	97%	183[5]	$251,129	$1,372.3	+ 8%	94%
NS	25	6,893	275.7	−33%	4%	11	7,309	664.5	+141%	3%	19	15,957	839.8	+26%	6%
Totals	175	$190,544	$1,091.1	+15%	100%	185	$227,837	$1,231.6	+ 13%	100%	202	$267,086	$1,322.2	+ 7%	100%
3rd Qtr.															
ES	152	$168,653	$1,109.6	+14%	93%	179[5]	$216,704	$1,210.6	+ 9%	97%	185[5]	$242,422	$1,310.4	+ 8%	94%
NS	28	12,714	454.1	− 4%	7%	10	5,714	571.4	+ 26%	3%	19	15,146	797.2	+40%	6%
Totals	180	$181,367	$1,007.6	+10%	100%	189	$222,418	$1,176.8	+ 17%	100%	204	$257,568	$1,262.6	+ 7%	100%
4th Qtr.															
ES	153[5]	$133,747	$ 874.2	+12%	95%	179[5]	$168,375	$ 940.6	+ 8%	96%	196[5]	$185,849	$ 948.2	+ 1%	97%
NS	27	6,918	266.2	−36%	5%	20	7,155	357.8	+ 34%	4%	13	5,059	389.2	+ 9%	3%
Totals	180	$140,665	$ 781.5	+ 5%	100%	199	$175,530	$ 882.1	+ 13%	100%	209	$190,908	$ 913.4	+ 4%	100%

1 Per Store Average change, to nearest whole percent.
2 Portion of Total Sales, to nearest whole percent.
3 ES denotes Established Stores, stores which have been open for one year or more.
4 NS denotes New Stores, stores which have been open less than a year.
5 Five stores have been closed; in December 1977, December 1978, May 1979, September 1979, and January 1980; therefore, both the number and average sales volume of Established Stores have been reduced approximately for comparative purposes, from the fourth quarter of Fiscal 1977 onward.

21-Year Review

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

		20 Year Compound Growth Rates 1959-1979 (1)	10 Year Compound Growth Rates 1969-1979 (1)	1979 (2)	1978 (2)	1977	1976
	Stores and People						
1	Number of Stores	14.5%	13.0%	209	199	180	154
2	Number of Employees	14.9%	14.1%	5,804	5,809	5,123	4,200
3	Customers Served (Thousands)	16.1%	16.1%	11,024	10,013	8,817	7,611
4	Average Customer Purchase			$ 82.02	$ 79.20	$ 75.04	$ 68.25
	Comparative Income Statement (Thousands)						
5	Total Sales	18.7%	21.3%	$904,651	$793,125	$661,625	$519,395
6	Pre-Tax Earnings	19.1%	18.2%	$ 54,815	$ 54,331	$ 48,554	$ 38,430
7	Taxes on Income	18.8%	17.2%	$ 26,043	$ 26,469	$ 23,861	$ 19,133
8	Net Earnings	21.1%	19.1%	$ 28,772	$ 27,862	$ 24,693	$ 19,297
9	Cash Flow (3)	20.4%	20.3%	$ 38,836	$ 36,576	$ 31,437	$ 24,851
10	Cash Dividends Paid (1)	25.2%	22.4%	$ 6,511	$ 5,209	$ 3,907	$ 1,706
11	Earnings, Minus Dividends, Reinvested	17.9%	18.3%	$ 22,261	$ 22,653	$ 20,786	$ 17,591
	Dollars Per Share (Nearest Cent) (4)						
12	Sales	18.2%	20.9%	$ 69.47	$ 60.91	$ 50.81	$ 39.89
13	Earnings	19.0%	18.7%	$ 2.21	$ 2.14	$ 1.90	$ 1.48
14	Cash Flow (3)	20.1%	20.0%	$ 2.98	$ 2.81	$ 2.41	$ 1.91
15	Cash Dividends (1)	24.6%	22.0%	$ .50	$ .40	$ .30	$ .13
16	Earnings Retained and Reinvested	16.9%	17.7%	$ 1.71	$ 1.74	$ 1.60	$ 1.35
17	Shareholders' Equity	21.4%	21.6%	$ 12.83	$ 11.12	$ 9.38	$ 7.80
	Strategic Profit Model*						
18	Asset Turnover (Sales per Asset Dollar)			$ 3.26	$ 3.28	$ 3.39	$ 3.13
19	Return on Sales (Earnings as % of Sales)			× 3.18%	× 3.51%	× 3.73%	× 3.72%
20	Return on Assets			= 10.38%	= 11.49%	= 12.64%	= 11.64%
21	Leverage Factor (Asset Dollars per Equity Dollar)			× 1.92	× 1.98	× 1.92	× 1.98
22	Return on Shareholders' Equity			= 19.87%	= 22.81%	= 24.27%	= 23.05%
	Comparative Balance Sheet (Thousands)						
23	Current Asset Totals	19.6%	20.0%	$226,863	$196,817	$176,640	$139,505
24	Cash	22.4%	16.5%	$ 22,959	$ 9,362	$ 10,947	$ 735
25	Accounts Receivable (Net of Reserves)	18.3%	15.6%	$ 66,442	$ 66,836	$ 61,468	$ 45,876
26	Inventories (Lower of Cost or Market)	20.0%	23.6%	$134,461	$119,714	$102,918	$ 91,976
27	Other Current Assets	18.3%	47.4%	$ 3,001	$ 1,782	$ 1,307	$ 918
28	Fixed Assets	23.0%	25.9%	$ 88,695	$ 80,096	$ 64,432	$ 55,386
29	Other Assets	13.0%	3.2%	$ 291	$ 371	$ 453	$ 414
30	Total Assets	20.4%	21.3%	$315,849	$277,284	$241,525	$195,304
31	Current Liabilities Totals	18.0%	16.6%	$ 92,685	$ 67,532	$ 68,076	$ 50,863
32	Accounts Payable	17.9%	14.5%	$ 45,567	$ 44,833	$ 38,948	$ 23,856
33	Income Tax Payable	19.1%	20.1%	$ 23,122	$ 3,451	$ 8,753	$ 4,875
34	Other Current Liabilities	17.2%	18.3%	$ 23,996	$ 19,248	$ 20,375	$ 22,132
35	Long-Term Debt	21.8%	36.2%	$ 56,112	$ 64,961	$ 51,312	$ 42,880
36	Total Liabilities	19.1%	20.7%	$148,797	$132,493	$119,388	$ 93,743
37	Shareholders' Equity	21.8%	21.9%	$167,052	$144,791	$122,137	$101,562
38	Ratio: Equity ÷ Long Term Debt			2.98	2.23	2.38	2.37
39	Year End Leverage Factor: Assets ÷ Equity			1.89	1.92	1.98	1.92
	Shareholders and Shares						
40	Shareholders of Record, Year-End			5,147	4,750	4,688	4,110
41	Shares Outstanding, Year End (Thousands) (4) (5)			13,022	13,022	13,022	13,022
42	Stock Price Range During year (4)						
	High			$ 20.75	$ 26.00	$26.75	$33.00
	Low			$ 16.25	$ 16.50	$19.50	$23.75

Explanatory Notes

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

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

(3) Here, Cash Flow is d depreciation.

(4) As adjusted to reflec a 2 for 1 stock split i dividend in Decembe July 31, 1972, and a

(5) Variation in the outst Treasury Stock purch stock option transact sold or issued for ac

Fiscal Years Ended July 31

1975	1974	1973		1973	1972	1971	1970	10 Year Compound Growth Rates 1959-1969	Base Year 1969
141	125	105	1	100	86	75	64	16.1%	58
3,600	2,900	3,200	2	3,296	2,630	2,071	1,670	15.8%	1,450
6,324	5,349	5,201	3	4,717	3,820	3,194	2,729	16.1%	2,290
$ 61.40	$ 64.75	$ 68.45	4	$ 69.29	$ 61.40	$ 53.13	$ 47.09		$ 51.98
$388,254	$346,343	$355,999	5	$326,846	$234,556	$169,723	$128,491	16.0%	$119,053
$ 24,483	$ 26,255	$ 26,999	6	$ 25,393	$ 18,143	$ 13,027	$ 9,938	20.2%	$ 9,514
$ 12,057	$ 13,163	$ 13,491	7	$ 12,665	$ 9,022	$ 6,479	$ 5,068	20.5%	$ 4,906
$ 12,426	$ 13,092	$ 13,508	8	$ 12,728	$ 9,121	$ 6,548	$ 4,870	19.8%	$ 4,608
$ 17,020	$ 16,835	$ 16,640	9	$ 15,519	$ 11,416	$ 8,174	$ 6,091	20.5%	$ 5,559
$ 1,215	$ 1,098	$ 1,020	10	$ 1,017	$ 946	$ 907	$ 844	28.9%	$ 780
$ 11,211	$ 11,994	$ 12,488	11	$ 11,711	$ 8,174	$ 5,641	$ 4,026	17.6%	$ 3,828
$ 29.81	$ 26.81	$ 27.94	12	$ 25.71	$ 18.54	$ 13.44	$ 10.18	15.4%	$ 9.43
$ .95	$ 1.01	$ 1.06	13	$ 1.00	$ .72	$ .52	$ .39	19.2%	$ .37
$ 1.31	$ 1.29	$ 1.28	14	$ 1.22	$ .90	$ .65	$ .48	20.2%	$ .44
$ .10	$ .09	$ .08	15	$ .08	$ .07	$ .07	$ .07	28.1%	$ .06
$ .86	$ .93	$ .98	16	$ .92	$ .65	$ .45	$ .32	15.3%	$ .31
$ 6.44	$ 5.60	$ 4.53	17	$ 4.07	$ 3.09	$ 2.43	$ 1.97	21.1%	$ 1.65
$ 2.90	$ 2.78	$ 3.98	18	$ 3.65	$ 3.40	$ 3.43	$ 3.09		$ 3.37
× 3.20%	× 3.78%	× 3.79%	19	× 3.89%	× 3.89%	× 3.86%	× 3.79%		× 3.87%
= 9.28%	= 10.15%	= 15.08%	20	= 14.22%	= 13.20%	= 13.25%	= 11.72%		= 13.03%
× 1.85	× 2.16	× 2.03	21	× 2.28	× 2.26	× 1.99	× 1.99		× 2.08
= 17.17%	= 22.70%	= 30.61%	22	= 32.42%	= 29.81%	= 26.31%	= 23.34%		= 27.07%
$117,383	$ 89,136	$ 89,517	23	$ 96,391	$ 70,110	$ 54,911	$ 38,878	19.3%	$ 33,433
$ 1,968	$ 3,780	$ 967	24	$ 7,859	$ 7,802	$ 6,304	$ 4,658	28.9%	$ 4,640
$ 35,467	$ 23,779	$ 28,564	25	$ 37,603	$ 27,440	$ 20,944	$ 14,887	21.3%	$ 14,559
$ 79,159	$ 60,623	$ 59,571	26	$ 50,639	$ 34,475	$ 27,332	$ 19,040	16.2%	$ 14,183
$ 790	$ 955	$ 415	27	$ 290	$ 393	$ 331	$ 293	—	$ 51
$ 48,006	$ 44,818	$ 34,933	28	$ 29,238	$ 19,330	$ 14,087	$ 10,390	20.0%	$ 7,918
$ 420	$ 146	$ 86	29	$ 85	$ 45	$ 88	$ 148	21.4%	$ 209
$165,809	$134,101	$124,536	30	$125,714	$ 89,485	$ 69,086	$ 49,416	19.4%	$ 41,560
$ 49,338	$ 29,108	$ 34,332	31	$ 55,694	$ 40,217	$ 31,198	$ 21,212	19.4%	$ 18,505
$ 30,810	$ 18,834	$ 18,966	32	$ 36,101	$ 27,684	$ 21,999	$ 15,178	21.6%	$ 10,997
$ 3,851	$ 3,961	$ 3,522	33	$ 5,073	$ 5,086	$ 4,293	$ 2,833	18.1%	$ 3,380
$ 14,677	$ 6,313	$ 11,844	34	$ 14,520	$ 7,447	$ 4,906	$ 3,201	16.1%	$ 4,128
$ 32,588	$ 32,667	$ 32,541	35	$ 18,238	$ 10,014	$ 7,296	$ 3,315	8.3%	$ 2,192
$ 81,926	$ 61,775	$ 66,873	36	$ 73,932	$ 50,231	$ 38,494	$ 24,527	17.5%	$ 20,697
$ 83,883	$ 72,326	$ 57,663	37	$ 51,782	$ 39,254	$ 30,592	$ 24,889	21.7%	$ 20,863
2.57	2.21	1.77	38	2.84	3.92	4.19	7.51		9.52
1.98	1.85	2.16	39	2.43	2.28	2.26	1.99		1.99
3,686	3,335	3,718	40	3,704	3,038	2,463	2,117		1,916
13,022	12,917	12,742	41	12,731	12,683	12,629	12,623		12,623
$33.67	$34.67	$44.00	42	$48.00	$44.34	$23.00	$12.00		$12.00
$18.67	$12.67	$24.00		$32.67	$20.00	$ 9.67	$ 6.33		$ 7.67

more useful and meaningful.
ined as the total of net earnings plus

a 100% stock dividend in May, 1966,
November, 1969, a 50% stock
1971, a 33⅓% stock dividend as of
0% stock dividend in June, 1976.
nding shares is the result of a
se in 1963, and subsequent employee
ns. No additional shares have been
isitions.

***Strategic Profit Model**

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

Asset Turnover is affected by sales volur
charge sales mix and by the composition a
left-side balance sheet factors. The amount
to inventory, accounts receivable, and fixec
over rates of inventory and receivables, all
For every $1.00 in assets at the beginning
achieved $3.26 in sales.

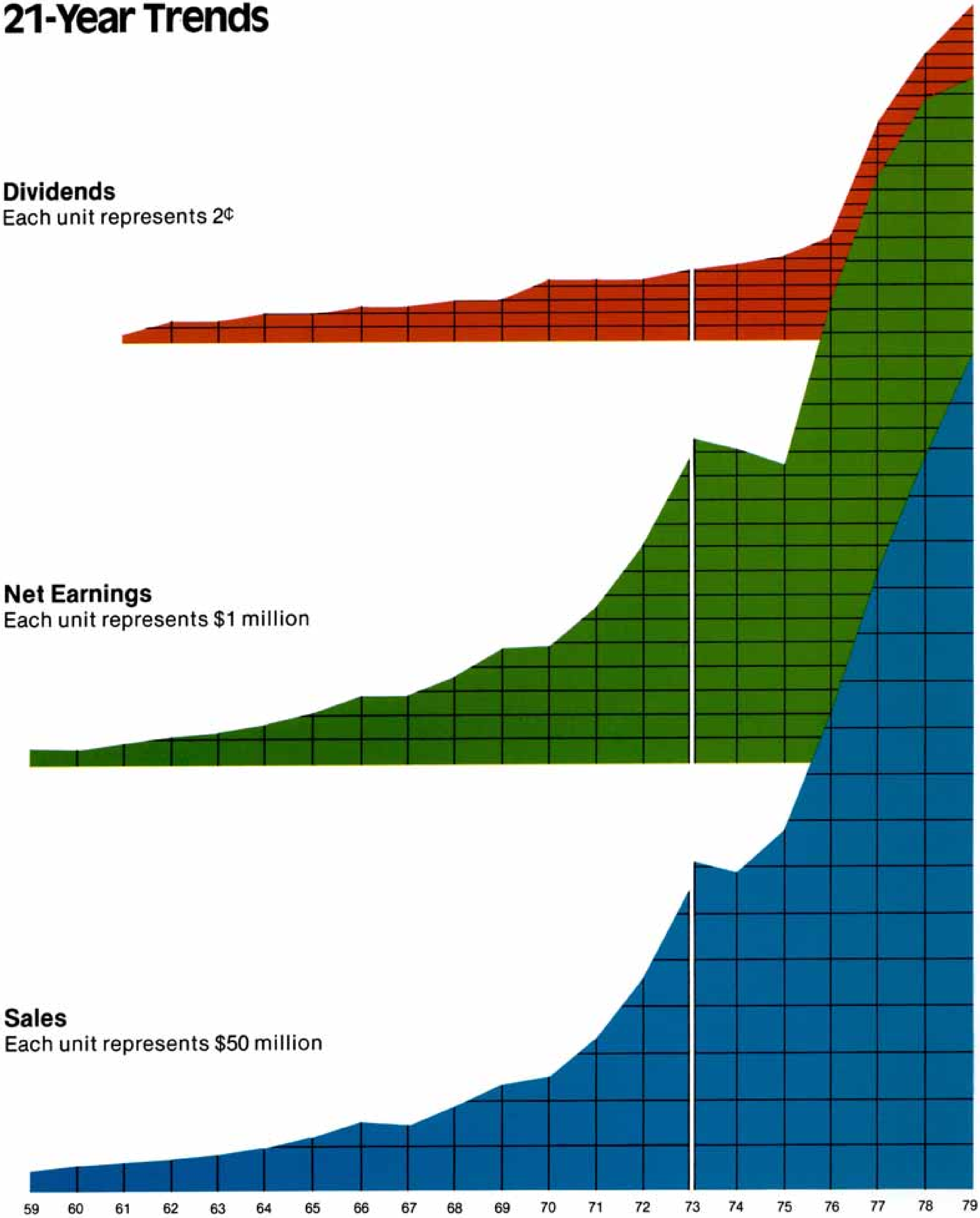
1968	1967	1966	1965	1964	1963	1962	1961	1960	Base Year 1959	
53	44	39	35	28	22	18	15	15	13	1
1,223	1,017	891	762	636	555	491	399	360	334	2
2,034	1,755	1,636	1,284	1,141	883	703	651	581	514	3
$ 47.70	$ 43.14	$ 47.10	$ 44.44	$ 42.66	$ 44.20	$ 46.52	$ 47.85	$ 52.80	$ 52.00	4
$ 97,031	$ 75,695	$ 77,043	$ 57,044	$ 48,680	$ 39,012	$ 32,716	$ 31,128	$ 30,679	$ 27,005	5
$ 7,202	$ 5,151	$ 5,286	$ 3,942	$ 3,086	$ 2,438	$ 2,054	$ 1,890	$ 1,359	$ 1,516	6
$ 3,609	$ 2,381	$ 2,496	$ 1,896	$ 1,518	$ 1,233	$ 1,034	$ 956	$ 641	$ 760	7
$ 3,593	$ 2,770	$ 2,790	$ 2,046	$ 1,568	$ 1,205	$ 1,020	$ 934	$ 718	$ 756	8
$ 4,419	$ 3,564	$ 3,339	$ 2,351	$ 1,765	$ 1,356	$ 1,145	$ 1,067	$ 855	$ 862	9
$ 756	$ 661	$ 616	$ 519	$ 460	$ 411	$ 402	$ 102	—	—	10
$ 2,837	$ 2,109	$ 2,174	$ 1,527	$ 1,108	$ 794	$ 618	$ 832	$ 718	$ 756	11
$ 7.77	$ 6.13	$ 6.29	$ 4.68	$ 4.08	$ 3.29	$ 2.73	$ 2.59	$ 2.56	$ 2.25	12
$ .29	$ .22	$ .23	$ .17	$ .13	$ .10	$ .09	$ .08	$ .06	$ .06	13
$ .35	$ .29	$ .27	$ .20	$ .15	$ .11	$ .10	$ .09	$ .07	$ .07	14
$ .06	$ .05	$ .05	$ .04	$ .04	$ .03	$ .03	$ .01	—	—	15
$ .23	$ .17	$ .17	$ .13	$ .09	$ .07	$ .05	$ .07	$ .07	$ .07	16
$ 1.35	$ 1.13	$ .95	$ .78	$ .65	$ .53	$ .47	$ .42	$ .30	$ .24	17
$ 3.24	$ 2.65	$ 3.34	$ 3.20	$ 3.11	$ 2.98	$ 2.76	$ 3.32	$ 4.35	$ 5.13	18
× 3.70%	× 3.66%	× 3.62%	× 3.59%	× 3.22%	× 3.09%	× 3.12%	× 3.00%	× 2.34%	× 2.80%	19
= 11.98%	= 9.70%	= 12.09%	= 11.49%	= 10.03%	= 9.20%	= 8.62%	= 9.96%	= 10.18%	= 14.36%	20
× 2.15	× 2.42	× 2.43	× 2.31	× 2.47	× 2.31	× 2.34	× 2.57	× 2.40	× 2.43	21
= 25.76%	= 23.49%	= 29.40%	= 26.55%	= 24.78%	= 21.28%	= 20.23%	= 25.60%	= 24.43%	= 34.89%	22
$ 28,617	$ 24,164	$ 23,396	$ 19,187	$ 15,350	$ 13,976	$ 11,702	$ 9,305	$ 8,071	$ 5,737	23
$ 4,129	$ 4,814	$ 3,024	$ 3,801	$ 3,374	$ 2,735	$ 1,956	$ 1,299	$ 442	$ 365	24
$ 11,880	$ 9,675	$ 9,310	$ 7,165	$ 5,586	$ 4,968	$ 3,769	$ 3,108	$ 2,858	$ 2,112	25
$ 12,475	$ 9,532	$ 10,931	$ 8,156	$ 6,337	$ 6,214	$ 5,868	$ 4,801	$ 4,755	$ 3,164	26
$ 133	$ 143	$ 131	$ 65	$ 53	$ 59	$ 109	$ 97	$ 16	$ 96	27
$ 6,546	$ 5,729	$ 5,058	$ 3,832	$ 2,381	$ 1,531	$ 1,261	$ 1,229	$ 1,253	$ 1,281	28
$ 205	$ 99	$ 105	$ 77	$ 73	$ 123	$ 134	$ 1,301	$ 58	$ 30	29
$ 35,368	$ 29,992	$ 28,559	$ 23,096	$ 17,804	$ 15,630	$ 13,097	$ 11,835	$ 9,382	$ 7,048	30
$ 14,911	$ 12,503	$ 13,630	$ 11,213	$ 7,454	$ 7,123	$ 5,696	$ 4,922	$ 4,874	$ 3,130	31
$ 9,703	$ 8,425	$ 9,496	$ 7,913	$ 5,149	$ 5,036	$ 4,255	$ 3,187	$ 2,827	$ 1,562	32
$ 2,706	$ 2,177	$ 2,182	$ 1,671	$ 1,142	$ 1,073	$ 855	$ 716	$ 521	$ 642	33
$ 2,502	$ 1,901	$ 1,952	$ 1,629	$ 1,163	$ 1,014	$ 586	$ 1,019	$ 1,526	$ 926	34
$ 3,434	$ 3,527	$ 3,127	$ 2,377	$ 2,615	$ 2,139	$ 1,680	$ 1,791	$ 862	$ 986	35
$ 18,346	$ 16,033	$ 16,765	$ 13,606	$ 10,097	$ 9,304	$ 7,435	$ 6,792	$ 5,736	$ 4,116	36
$ 17,022	$ 13,959	$ 11,794	$ 9,490	$ 7,707	$ 6,326	$ 5,662	$ 5,043	$ 3,646	$ 2,932	37
4.95	3.95	3.77	3.99	2.95	2.95	3.37	2.81	4.23	2.97	38
2.08	2.15	2.42	2.43	2.31	2.47	2.31	2.35	2.57	2.40	39
1,976	2,154	1,985	1,871	1,967	2,034	2,047	—	—	—	40
12,609	12,375	12,317	12,183	11,919	11,856	12,000	12,000	12,000	12,000	41
										42
$ 8.00	$ 4.00	$ 3.33	$ 2.67	$ 2.00	$ 1.00	$ 1.67	—	—	—	
$ 4.00	$ 2.00	$ 2.33	$ 1.67	$ 1.00	$ .67	$ 1.00	—	—	—	

by the cash-
performance of
assets allocated
sets, and the turn-
ct Asset Turnover.
scal 1979, Lowe's

Return on Sales is the measurement of the efficiency of the sales organization. It is affected by sales volume, customer and product mix, and income statement factors—margin rates, fixed and variable expenses, and tax rates. Fiscal 1979's return on sales was 3.18%. This multiplied by Asset Turnover, gives Return on Assets of 10.38%. This is the same as dividing Net Earnings by Beginning Assets, although totals vary due to rounding.

Leverage introduces "right-side" balance sheet factors, and measures equity dollars versus total asset dollars. For every $1.00 of Shareholders' Equity at the beginning of 1979, Lowe's had $.92 in other liabilities, thus financing $1.92 in assets. This $1.92 leverage factor times the 10.38% Return on Assets gives Return on Beginning Shareholders' Equity of 19.87%. Totals vary due to rounding.

21-Year Trends



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21-Year Review: Bob Strickland/ Management Analysis: Karen Worley/ Shareholder Report and Census: Irene Wilcox/ Statistical Assistance: Kay Schweers
Index: Joan Lewis/Printing Coordination and Production: Matt Phelan and Billy Glover: Printing: Perry Communications (Atlanta)

See Pages 10-11
for detailed report on
Lowe's store locations.

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