

# LOWE'S

Annual Report



**Lowe's  
attacks the  
challenges of  
the '90's with  
three guns  
blazing!**

MCKELVEY

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## Financial Highlights

Fiscal Years End on January 31 of Following Year

	Change	Fiscal 1988	Fiscal 1987
Sales	+ 3%	\$2,516,879,000	\$2,442,177,000
Net Earnings	+ 13	69,201,000	61,180,000
<b>Per Share:</b>			
Earnings	+ 19	1.83	1.54
Cash Dividends	+ 7	.46	.43
<b>At Year-End:</b>			
Shareholders' Equity	+ 1	586,851,000	582,436,000
Total Assets	+ 6	1,085,797,000	1,027,329,000
Share Price	+ 19%	\$ 22.88	\$ 19.25

*Future Home of*  
**LOWE'S**  
*Growing Together*

## Dear Shareholders:

In 1988, with our sights set squarely on our objectives, we hit the decks running and attacked with guns blazing. Our targets were higher earnings, cash flow, dividends, shareholder value, and strategic market positioning. Now as the smoke clears away, we're happy to report direct hits: 1988 was Lowe's best year ever, and our missions were accomplished.

From the bridge of our metaphorical flagship, we can look back across four decades of growth for Lowe's fleet of stores. Opportunistic navigation and good seamanship have brought us to our current position as a leading marketer in Lowe's three market segments: the home center business, the building contractor business, and the consumer durables business.

We have won many battles and weathered many storms, but the adventure continues. As we prepare to leave the Eighties in our wake, we will be launching some new stores and relocating many others to meet the challenges that we see on the marketing horizon. Seaworthy and experienced, the Lowe's fleet will meet the future with battle-ready confidence.

### Recapping the Waves of '88

We predicted in last year's letter that our 1988 home center business would become the largest of Lowe's three businesses in terms of sales. That prediction was fulfilled, with home center sales accounting for 44% of total sales in 1988, compared with 42% in 1987. Our consumer durables business accounted for 15% of total sales, up from 14% in 1987. Lowe's building contractor business provided 41% of total sales, with gains in market share despite a decline in housing starts in the Southeast.

Ten years ago, contractor customers provided 59% of our total sales, while retail customers accounted for 41%. Lowe's began the 1980's with a mission to increase our retailing expertise. We were confident that growth in the home improvement and consumer durables market categories would buoy Lowe's overall sales whenever the building industry faltered. In 1988, for the first time, the percentages of 1978 were completely reversed, and retail growth will continue to drive increases in sales and earnings for the foreseeable future.

The Do-It-Yourself Research Institute, of which Lowe's is a founding member, reports that the home improvement market reached \$102 billion in sales in 1988, more than double the \$46 billion posted in 1978. Continued steady growth is projected for the future. The consumer durables market is also large, about \$40 billion in 1988, and also growing, from the steady pace of kitchen appliance sales to the faster growth of consumer electronics and lawn and garden power equipment.

In contrast, housing starts were in mild decline during 1988 and 1987, and a further slight decline is projected for 1989. However, structural changes for the better in housing funds' availability and affordability have significantly moderated the cyclicity of national housing starts.

From the 1960's through the early 1980's, starts swung from highs in the two million range to lows around one million. But since 1983, housing has averaged 1.68 million starts with a high of 1.8 million and a

low of 1.5 million, a peak-to-trough decline of just 17%, not 50%.

Further, while our sales growth strategy has successfully increased our retail volume as a percent of total, it was not designed to be, nor has it been, at the expense of contractor sales per store. In 1988, Lowe's stores averaged \$3.5 million in contractor sales, compared to just \$2.5 million in 1978. So this remains a successful core business, and one of ongoing strategic importance to Lowe's.



Robert L. Strickland

### **Reaping the Rewards**

Lowe's sales gains in 1988 were eclipsed by our earnings record of \$69.2 million. We cruised past last year's \$61.2 million and beyond our previous record of \$61.4 million, set back in 1984. We consistently strive to lead our industry in effective control of expenses as a percentage of sales, and we are most pleased to have made more money on our business in 1988.

Earnings per share rose 19% in 1988, exceeding last year's 15% growth. The company paid out \$17.3 million in dividends, and the 46 cents per share was a 7% increase over 1987.

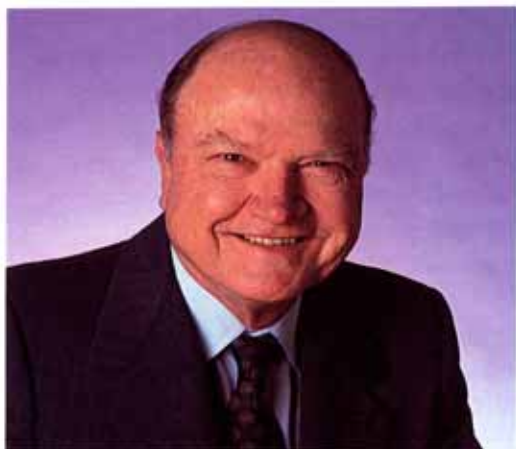
In 1988 we saw such value in Lowe's stock that we completed a purchase of \$50 million of Lowe's equity on the open market, placing it into treasury stock and thereby reducing the number of outstanding shares from 39.5 million to 37.1 million. We have also been buying equity for Lowe's ESOP, which has completed its tenth anniversary year and holds 26% of Lowe's total shares outstanding. Since July 1987, Lowe's has invested a total of \$104 million into these two stock purchasing programs. Observant investors will note that besides advocating the value of Lowe's stock ownership, we also put our money where our mouth is!

### **The Adventure Ahead**

Lowe's sales are the highest in our industry, but even our \$2.5 billion is just a tiny fraction of a fragmented national market now estimated at more than \$190 billion in home improvement, consumer durables, and contractor supplies. Far from finding ourselves competing for space in increasingly crowded waters, we perceive that there is room for everyone (well, almost everyone), and much room on the crest of the waves for the better operators.

We are nurturing the growth of our three businesses in all of Lowe's markets. We have divided those markets into five categories based on size, and we continue to monitor the performance of our stores in each business and in each market category.

As our best results have come from our newer, larger stores, Lowe's has doubled sales floor space from 2.5 million to 5 million square feet



Leonard G. Herring

since 1984. We have concentrated this expansion in established Lowe's markets, relocating and retrofitting older, smaller stores whose sales volume had peaked. In spite of disruption occasioned by the expansion, sales from those new and retrofitted stores have accounted for an overwhelming percentage of our total sales gain in the last four years.

These results have confirmed our belief that large sales floors are strategic necessities to compete effectively in the home center business, because increasingly home center

customers prefer the convenience of self-service.

Our larger stores are successful because they turn in more sales and earnings. Our marketing and merchandising programs are successful because they turn on more customers. Due to our expansion investment since 1983, we now have two fleets in the Lowe's navy: 157 older, smaller stores and 139 newer, larger ones.

In 1988, while the older fleet averaged \$7.4 million in sales per store, the newer fleet averaged \$9.8 million. Further, 47 of the 139 newer stores displayed even more firepower, with sales and earnings performance exceeding the older fleet by more than 50% and 65% respectively — and respectably.

Therefore, our growth and expansion sailing orders for the next few years call for increasing the number of the high performers. This means, simply, larger ships in existing Lowe's waters, and is the subject of our feature story, "Full Speed Into The '90's."

### Sharing the Adventure

We take this opportunity to salute Lowe's partners-in-interest, who keep Lowe's fleet afloat: our customers, suppliers, employees, shareholders, and directors. If you are a new shareholder or friend, welcome aboard!

We appreciate your interest and support, and we promise that whatever challenges and opportunities lie over the waves, the future will find us with clear eyes and a steady hand at the helm, steering a true course to greater growth and profit. Anchors aweigh!

Cordial good wishes,

*Robert L. Strickland*

Robert L. Strickland  
Chairman of the Board

*Leonard G. Herring*

Leonard G. Herring  
President and  
Chief Executive Officer

North Wilkesboro, North Carolina

# Full Speed Into The '90's!



Here on the pages of our annual report, Lowe's fleet of stores passes in review with all hands on deck and all colors flying. Many of our partners-in-interest know how much care and labor have gone into building our fleet to its current tonnage and firepower. We are proud of its proven seaworthiness and proud of our own seamanship.

However, past accomplishments are water under the bridge. More than parading our expertise, we want to share the insights and the sense of purpose that our expertise has given us. Our vision of the future fills us with anticipation of great opportunities to come. To take full advantage of these opportunities, Lowe's fleet must grow rapidly yet efficiently, improving today's profitability while preparing for tomorrow's challenges.

Let us throttle our engines for a moment to explain and expand on this metaphor of Lowe's stores as a fleet.

Like ships in a fleet, the stores in Lowe's chain are designed and equipped to achieve specific goals as part of a strategic plan. We deploy our stores as needed in Lowe's markets, the bodies of water on which we sail. Like bodies of water, markets have characteristics determined by size and location. Also like bodies of water, markets can be charted and understood but not controlled. They are changeable, subject to economic influences as variable as the weather at sea.

The following table categorizes Lowe's 1988 fleet by store size and describes our "territorial waters" by market population.

Our fleet put to sea long before the words "home center" were even a twinkle in the eye of the retailing industry. The ships that we launched in those days were all P.T. boats, designed to serve building contractors

and durable goods customers in small Home Port markets. We attracted those customers by consistently offering good basic value at "Lowe's Low Prices." Large sales floors simply weren't necessary.

As Lowe's prospered and entered new markets, we expanded our product offering and began to launch larger stores — "large" meaning anything bigger than about 8,000 square feet! Our average sales floor was still just over 9,000 square feet when, in the late Seventies, we began to chart a new course for Lowe's that would emphasize growth of retail sales. More retail business would increase Lowe's profitability by raising our selling margins and reducing the impact of the building

<b>Lowe's Markets — Our Territorial Waters</b>	
	Population
Home Ports	Less than 100,000
Friendly Harbors	100,000 - 200,000
South Seas	200,000 - 500,000
Bounding Main	500,000 - 1,000,000
Bermuda Triangle	1,000,000 Plus

<b>Lowe's Stores — Our Fleet by Store Size</b>	
	Retail Square Footage
P.T. Boats	Less than 10,000
Destroyers	10,000 - 20,000
Cruisers	20,000 - 40,000
Battleships	40,000 Plus



**LOWE'S**

**ENTER**

**EXIT**

**EXIT**

**EXIT**

**EXIT**

**STORE HOURS**

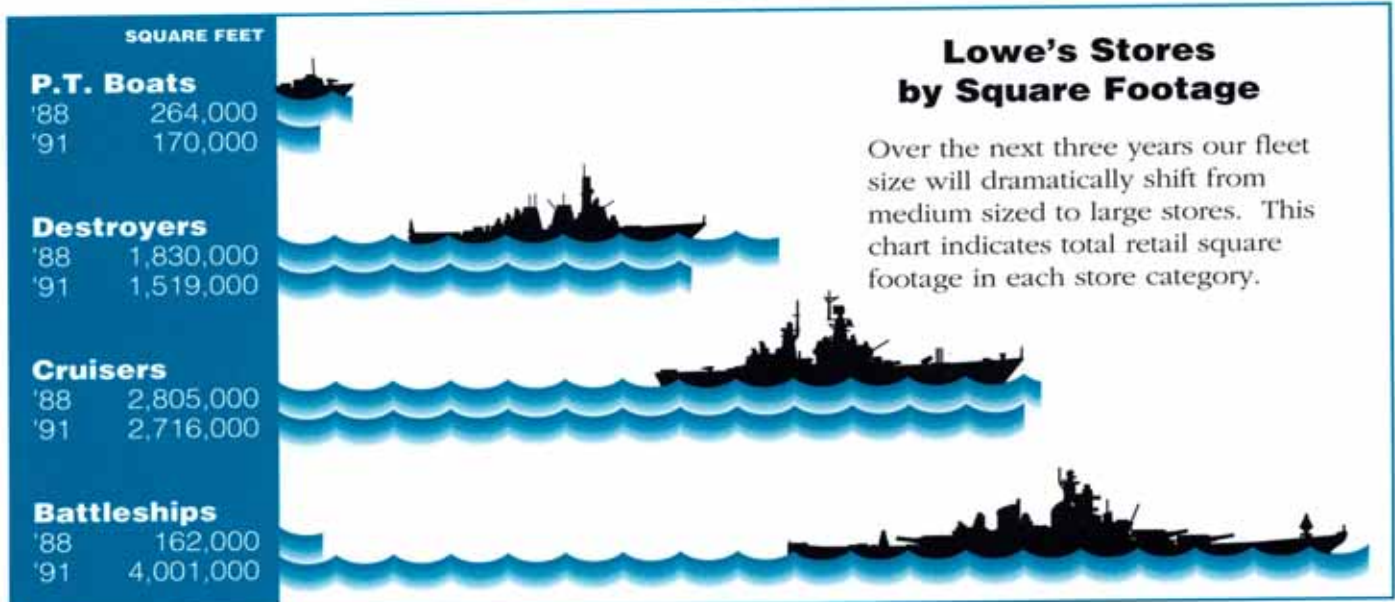
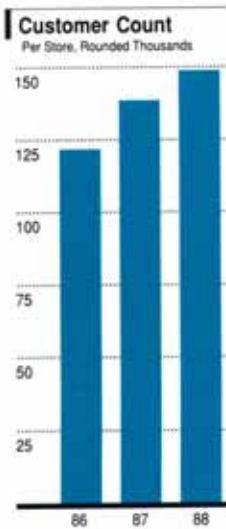
***The newest member of the Lowe's fleet is this Battleship in Boone, N.C.***

industry's crests and troughs. In effect, we were adding firepower to our existing fleet, making all our P.T. boats into "two-gun" stores that were designed to be equally strong in retail and contractor sales.

By the beginning of this decade, the do-it-yourself home improvement market was promising tremendous opportunities for growth and profit as the Baby Boom generation began to buy homes and start families. Suppliers expanded their product lines, making home improvement offerings more attractive to consumers desiring an upscale (yet affordable) home environment. Before long, Lowe's P.T. boats were carrying so much merchandise that they were riding low in the water, and we realized that they had reached the full sales potential of their size. The time had come for quantitative expansion. We resolved to drydock and refit more than half of our ships from stem to stern, sacrificing a degree of short-term profit in the interest of greater long-term gains.

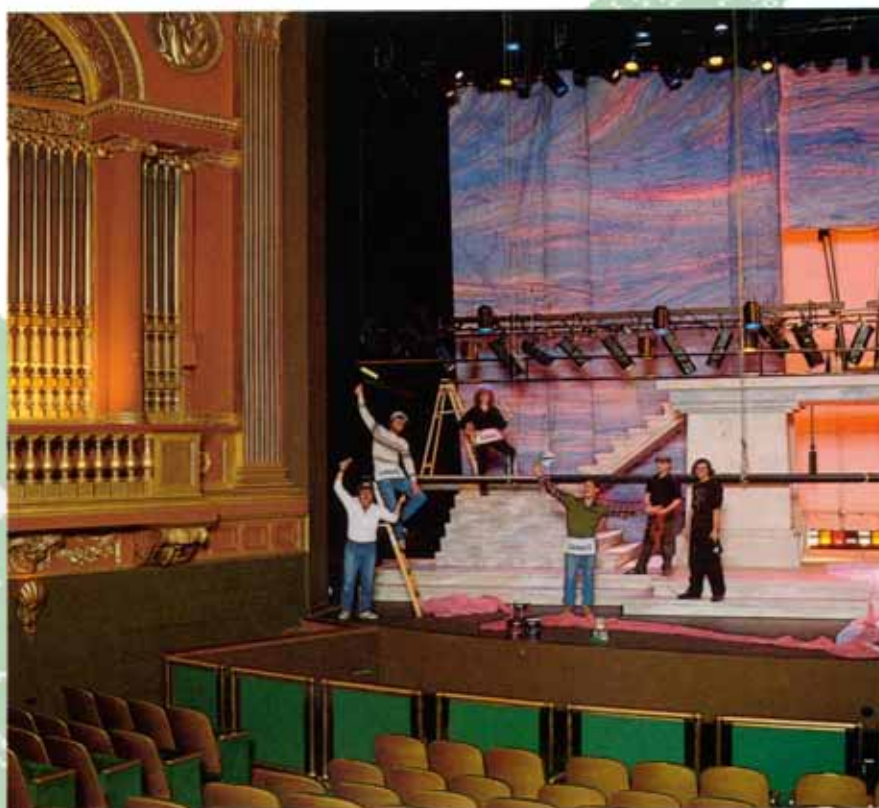
Between 1984 and 1988, we doubled the total sales floor of Lowe's fleet from 2.5 million to 5 million square feet. We retrofitted many P.T. boats into Destroyers (10,000 to 20,000 square feet) or Cruisers (20,000 to 40,000) and developed prototypes for new stores of the same size. We deployed the great majority of these ships in Home Ports, Friendly Harbors, and South Seas markets, where Lowe's main competition was (as it still is) independent operators and small chains of small stores. Although we tracked the activities of the new home center warehouse retailers, and occasionally even confronted them along the boundaries of our territorial waters, we were not threatened by them. Nor did we envy their exposure in big-city Bermuda Triangle markets!

Throughout the past decade of qualitative and quantitative growth for Lowe's, the concept of home center retailing has been evolving. New competitors have put to sea, and consumer expectations and buying





**Students in the School of Design at the North Carolina School of the Arts know Lowe's as a source of paint, lumber, and tools for stage set construction.**



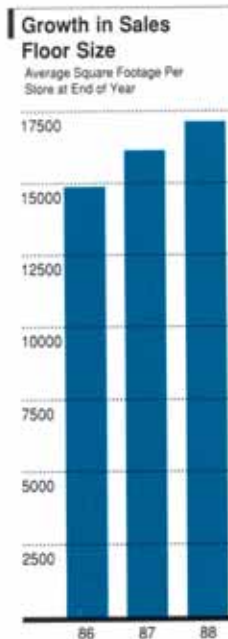
habits have changed. Until 1987, we generally classified Lowe's home center operations with our durable goods under the heading of "retail sales."

Now our home center products, customers, and competition are the components of a distinct industry. Recognizing the unique requirements and challenges of home center retailing, we now define Lowe's as a fleet of "three-gun" stores. Our three big guns are our building contractor business, our consumer durables business, and our home center business.

These three (and only these three) are Lowe's businesses, and only Lowe's operates all three under one roof.

Our contractor business is the oldest of our three guns, and until 1988 it was also the biggest. It originated in the post-World War II building boom, when Carl Buchan made a name for Lowe's as a value-driven retailer of building materials and construction supplies. Our competition in this core business has always been local lumberyards and small independent operators.

Our consumer durables business shares the long tradition of our contractor business. We consistently have achieved good market penetration as a retailer of major household appliances, selling famous brand names at Lowe's Low Prices. As technology has expanded the durables category to include products from riding lawn mowers to video recorders, we have competed successfully with retailers as different as Sears and Circuit City. Our customers in this business are primarily homeowners, whose buying behavior is influenced by economic conditions, marketplace acceptance of new technologies, and the life cycles of the



### Sales Floor Size and Productivity

Dollars in Thousands, Except Sales Per Square Foot

	1988	1987	1986
1. Stores Open at End of Year	296	295	300
2. Weighted Average Stores Open During Year <sup>1</sup>	296.4	306.9	291.4
<b>Average Sales Floor Size</b>			
3. Total Sales Floor Square Footage, End of Year	5,062,865	4,773,743	4,452,161
<b>4. Average Sales Floor Size, End of Year<sup>2</sup></b>	<b>17,104</b>	<b>16,182</b>	<b>14,841</b>
5. Weighted Average Sales Floor Square Footage During Year <sup>3</sup>	4,932,985	4,760,479	4,043,904
<b>Sales Results</b>			
6. Total Sales	\$2,516,879	\$2,442,177	\$2,283,480
7. Home Center Sales	1,116,668	1,027,445	928,607
8. Consumer Durables Sales	368,263	347,983	334,804
9. Building Contractor Sales	1,031,948	1,066,749	1,020,069
<b>Sales Per Square Foot</b>			
10. Total Sales Per Square Foot <sup>4</sup>	510	513	565
11. Home Center & Consumer Durables Sales Per Square Foot <sup>5</sup>	301	289	312
<b>Average Store Sales</b>			
12. Total Sales Per Average Store <sup>6</sup>	8,491	7,958	7,836
13. Home Center Sales Per Average Store <sup>7</sup>	3,767	3,348	3,187
14. Consumer Durables Sales Per Average Store <sup>8</sup>	1,242	1,134	1,149
15. Building Contractor Sales Per Average Store <sup>9</sup>	\$ 3,482	\$ 3,476	\$ 3,500

<sup>1</sup> Stores open at beginning of year, plus stores opened and closed during year computed by adding total store months of operation for new stores and closed stores and dividing by 12.

<sup>2</sup> Line 3 divided by line 1.

<sup>3</sup> Line 4 current year, plus line 4 prior year, divided by 2, multiplied by line 2.

<sup>4</sup> Line 6 divided by line 5.

<sup>5</sup> Line 7 & 8 divided by line 5.

<sup>6</sup> Line 6 divided by line 2.

<sup>7</sup> Line 7 divided by line 2.

<sup>8</sup> Line 8 divided by line 2.

<sup>9</sup> Line 9 divided by line 2.



**Jack C. Shewmaker, a Lowe's Director, is also on the Board of Directors of Wal-Mart, where his career included the offices of President and Vice-Chairman. He calls Lowe's big new stores "one of the most exciting retail developments I've witnessed. Not only will it strengthen market share and increase sales and potential earnings, but it also will create untold opportunities for advancement and profit throughout the company."**

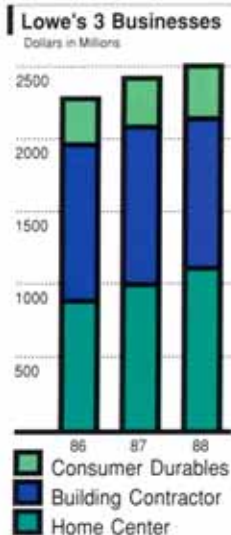


**Lowe's store employees remove a typical old-style product gondola, which is dwarfed by our new tall racking system.**

products themselves.

In 1988, for the first time, our home center business was the biggest of Lowe's three guns. It includes wall coverings, light fixtures, hot tubs — everything imaginable to repair, improve, or enhance the homes and apartments of America. In this business we compete with Home Depot, Hechinger, Payless Cashways, and numerous other operators who take widely varying approaches to home center retailing. Our customers are homeowners, Baby Boomers, Yuppies, and other smart shoppers with discretionary income and the desire for a higher quality home environment.

The growth of our home center business was the motivation behind our drive to double our sales floor size between 1984 and 1988. As our retrofitted stores rebounded from the trauma of expansion, we began to see results confirming our belief that large sales floors return large sales growth. Of our total fleet of 296 stores, 139 have experienced major expansion since 1984. While the older flotilla averaged \$7.4 million in sales per store for 1988, the expansion group averaged \$9.8 million per store — a 32% better performance!



**Merchandise Sales Trends**

Dollars in Millions

Category	Total Sales 5-Year CGR	Change From 1987	1988		1987		1986		1985		Base Year 1983	
			Total Sales	%	Total Sales	%	Total Sales	%	Total Sales	%	Total Sales	%
1. Structural Lumber	+ 12%	- 1%	\$ 470	19	\$ 476	20	\$ 419	18	\$ 364	18	\$ 270	19
2. Building Commodities & Millwork	+ 8	-	720	29	723	30	698	30	664	32	493	34
3. Home Decorating & Illumination	+ 16	+ 8	307	12	284	12	265	11	239	11	149	10
4. Kitchens, Bathrooms & Laundries	+ 10	+ 5	233	9	221	9	221	10	197	9	142	10
5. Heating, Cooling & Water Systems	+ 9	+ 8	129	5	120	5	110	5	104	5	85	6
6. Home Entertainment	+ 18	+ 16	119	5	103	4	107	5	78	4	51	4
7. Recreation, Yard, Patio, Garden & Farm	+ 21	+ 8	223	9	207	8	177	8	163	8	86	6
8. Tools	+ 29	+ 7	88	3	82	3	65	3	56	3	25	2
9. Special Order Sales (SOS)	+ 12	+ 1	228	9	226	9	221	10	208	10	129	9
<b>Totals</b>	<b>+12%</b>	<b>+ 3%</b>	<b>\$2,517</b>	<b>100</b>	<b>\$2,442</b>	<b>100</b>	<b>\$2,283</b>	<b>100</b>	<b>\$2,073</b>	<b>100</b>	<b>\$1,430</b>	<b>100</b>



**Store manager Ronnie Woodie supervises the stocking of our new Battleship store in Boone, N.C.**

True to our expectations, Lowe's home center business has shown the most dynamic growth as a result of sales floor expansion. In 1986, home center sales in our older stores averaged \$3.1 million. Just two years later, in 1988, our new and expanded stores averaged \$4.4 million in home center sales.


Although our home center business has been the main beneficiary of expansion, our other businesses have also been enhanced by the increased customer count at our larger, newer stores. For instance, while durable goods sales in our older group averaged \$1 million per store for both 1987 and 1988, in our newer convoy they grew from an average \$1.4 million to \$1.5 million. And while building contractor sales suffered a decline of three percent overall in 1988, contractor sales from the new or expanded stores exceeded contractor sales from the old stores by an average \$600 thousand per store.

All our growth and change has not been accomplished without an occasional tactical error. In 1985 we acquired twenty-five contractor-oriented stores in Texas and Oklahoma, where Lowe's lacked an established customer franchise. Before they could even get up a good head of steam as fully equipped Lowe's vessels, the economy of the oil patch dried up and most of those stores ran aground. Late in 1987 we salvaged what we could, closed the problem stores, and caught the next tide out of those unprofitable markets.

An old salt named Yogi Berra once remarked, "You can observe a lot just by watching." That certainly applies to the world of retailing. We have learned not only from our own mistakes, but also by monitoring the maneuvers of our competitors in the marketplace.

Currently, 66% of the nation's 283 home center warehouse stores compete in markets with populations greater than one million. Entire fleets of our competitors have plunged into these "Bermuda Triangle"

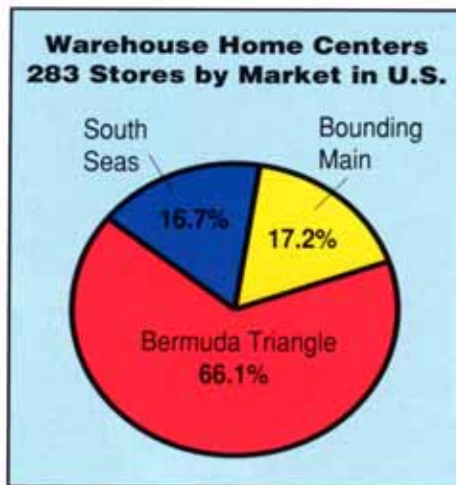




**James V. Tarlton Jr. (left) and his son, J. Vernon Tarlton III, are professional contractors based in Hickory, North Carolina. For the Tarltons, getting building supplies from Lowe's is a family tradition.**



markets and never been heard from again! By contrast, only eight percent of Lowe's stores are exposed in the Bermuda Triangle. Our experience of successful sales growth in more familiar waters supports our decision to pursue further expansion mainly in smaller markets where Lowe's already has a solid customer base.



Our expansion plans for 1989 call for twelve new stores, eighteen relocations, and just five retrofits. We have found that relocation offers several advantages over retrofitting. For one thing, it doesn't traumatize normal business at the old store while the new store is being prepared. It enables us to select a promising site in terms of the latest

commercial development and traffic patterns. Furthermore, the expansion potential of retrofitting is limited. Not even Lowe's experienced naval architects can turn a P.T. boat into a Battleship! And Battleships are the future of Lowe's fleet.

Increasingly, home center customers have demonstrated a preference for the convenience of self-service, which requires larger sales floors for "take-with" inventory rollout. Lowe's two new Battleship prototypes have sales floors of 40,000 and 60,000 square feet, with ceilings twenty feet high to accommodate our new tall racking system with room to grow.

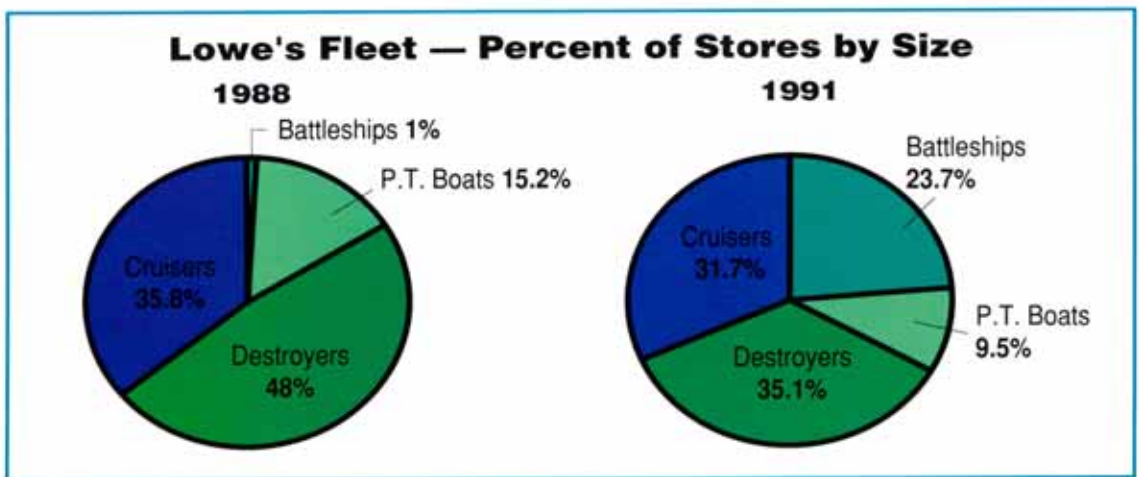
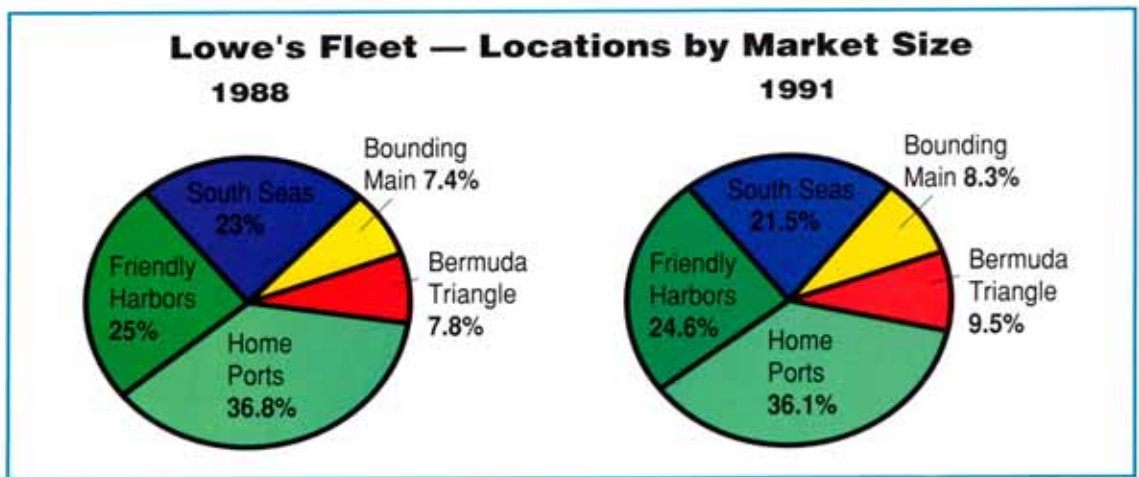
By the end of 1989, with the completion of thirty-five planned expansion projects, Lowe's Cruisers and Battleships will number over 140, representing 46% of the chain. This is a significant step toward critical



**Final pre-launch preparations for our new Boone, N.C. store.**



**Carol Farmer is a noted retail positioning strategist who has recently begun consulting for Lowe's on merchandising and marketing strategies. "Being a customer-driven company in the Nineties will be very challenging," Carol says. "In the Nineties, customer loyalty is the absence of something better. Lowe's is determined to be that 'something better.' Its management asks and answers the kind of questions that will keep Lowe's on top."**



mass for our fleet in terms of big-store merchandising and marketing. By the end of 1991, almost half of our total sales floor space will be in Battleships. However, it would be a mistake to assume that all these Battleships are destined for Lowe's larger markets. Only 23.4% will sail the Bounding Main or the Bermuda Triangle, while the overwhelming majority will be deployed in Home Ports, Friendly Harbors, or the South Seas (all with populations less than 500,000).

There are rich conquests to be made and rewards to be won by our efforts. According to the Do-It-Yourself Research Institute, the home improvement industry posted total sales of \$102 billion in 1988, dwarfing the sales volume of any single competitor on the water. The consumer durables market is also robust, totalling about \$40 billion in 1988. With building supply sales weighing in at roughly \$50 billion, the national market for Lowe's three businesses is more than \$190 billion!

Our calculations show that the housing affordability "problem" of the late 1970's and early 1980's has been greatly exaggerated, despite the fact that housing prices have doubled in recent years. In 1988, disposable

**A durable goods customer in one of Lowe's Home Port markets takes home purchases from our store in Wilson, North Carolina.**



personal income reached an all-time high of almost \$3.5 trillion nationwide. Mortgage interest rates in 1987 and 1988 were at their lowest levels in a decade, and this contributed to the highest sales of existing homes since 1979.

Within the last four years, Americans have bought almost fourteen million used homes. Over the next several years they will be repairing and improving these homes with home center merchandise, and equipping them with the latest generation of major appliances and home entertainment products. In 1988, our home center and durable goods sales accounted for a combined 59% of Lowe's total sales volume. Our goal is to increase that to 65% while also improving contractor sales. By dedicating the increased firepower of our fleet to the service of our three businesses in strategic markets, we are positioning Lowe's to rule the waves of the future.



<b>The New Home Market</b>					
Year	New Homes Sold (000)	Median Selling Price (000)	Total Market \$ Value (Billions)	Mortgage Interest Rate Paid	Total New Interest \$ Commitment (Billions)
1977	819	\$ 48.8	\$40.0	9.02%	\$3.61
1978	817	55.7	45.5	9.56	4.35
1979	709	62.9	44.6	10.78	4.81
1980	545	64.4	35.1	12.66	4.44
1981	436	68.6	29.9	14.70	4.40
1982	420	69.3	29.1	15.14	4.41
1983	623	75.3	46.9	12.57	5.90
1984	639	79.9	51.1	12.38	6.33
1985	688	84.3	58.0	11.58	6.71
1986	750	92.0	69.0	10.26	7.08
1987	670	104.0	69.7	9.32	6.50
1988	662	\$113.5	\$75.1	9.17%	\$6.89

<b>The Existing Home Market</b>					
Year	Existing Homes Sold (000)	Median Selling Price (000)	Total Market \$ Value (Billions)	Mortgage Interest Rate Paid	Total New Interest \$ Commitment (Billions)
1977	3,650	\$42.9	\$156.6	9.02%	\$ 14.1
1978	3,986	48.7	194.1	9.58	18.6
1979	3,827	55.7	213.2	10.92	23.3
1980	2,973	62.2	185.0	12.95	24.0
1981	2,419	66.4	161.0	15.00	24.2
1982	1,990	67.8	135.0	15.33	20.7
1983	2,719	70.3	191.1	12.75	24.4
1984	2,868	72.4	207.6	12.49	25.9
1985	3,214	75.5	242.7	11.74	28.5
1986	3,565	80.3	286.3	10.26	29.4
1987	3,550	85.6	303.9	9.26	28.1
1988	3,595	\$88.6	\$318.5	9.30%	\$29.6

<b>Housing Affordability</b>					
Year	Disposable Personal Income (Billions)	New Home Interest \$ Commitment (Billions)	Existing Home Interest \$ Commitment (Billions)	Total New Interest \$ Commitment (Billions)	New Interest Commitment as % of D P I
1977	\$1,379	\$3.61	\$14.1	\$17.71	1.28%
1978	1,551	4.35	18.6	22.95	1.48
1979	1,729	4.81	23.3	28.11	1.63
1980	1,917	4.44	24.0	28.44	1.48
1981	2,128	4.40	24.2	28.62	1.34
1982	2,261	4.41	20.7	25.11	1.11
1983	2,425	5.90	24.4	30.30	1.25
1984	2,670	6.33	25.9	32.23	1.21
1985	2,839	6.71	28.5	35.21	1.24
1986	3,020	7.08	29.4	36.48	1.21
1987	3,210	6.50	28.1	34.60	1.08
1988	\$3,472	\$6.89	\$29.6	\$36.49	1.05%



**Daniel C. Ferguson is Vice-Chairman and Chief Executive Officer of Newell Company, a leading manufacturer of consumer hardware and housewares brands. In his view, “The biggest, best, and most innovative merchandisers will become the most successful long-term retailers. That’s the trend today, and Lowe’s has moved to the forefront with its exciting new store effort.”**

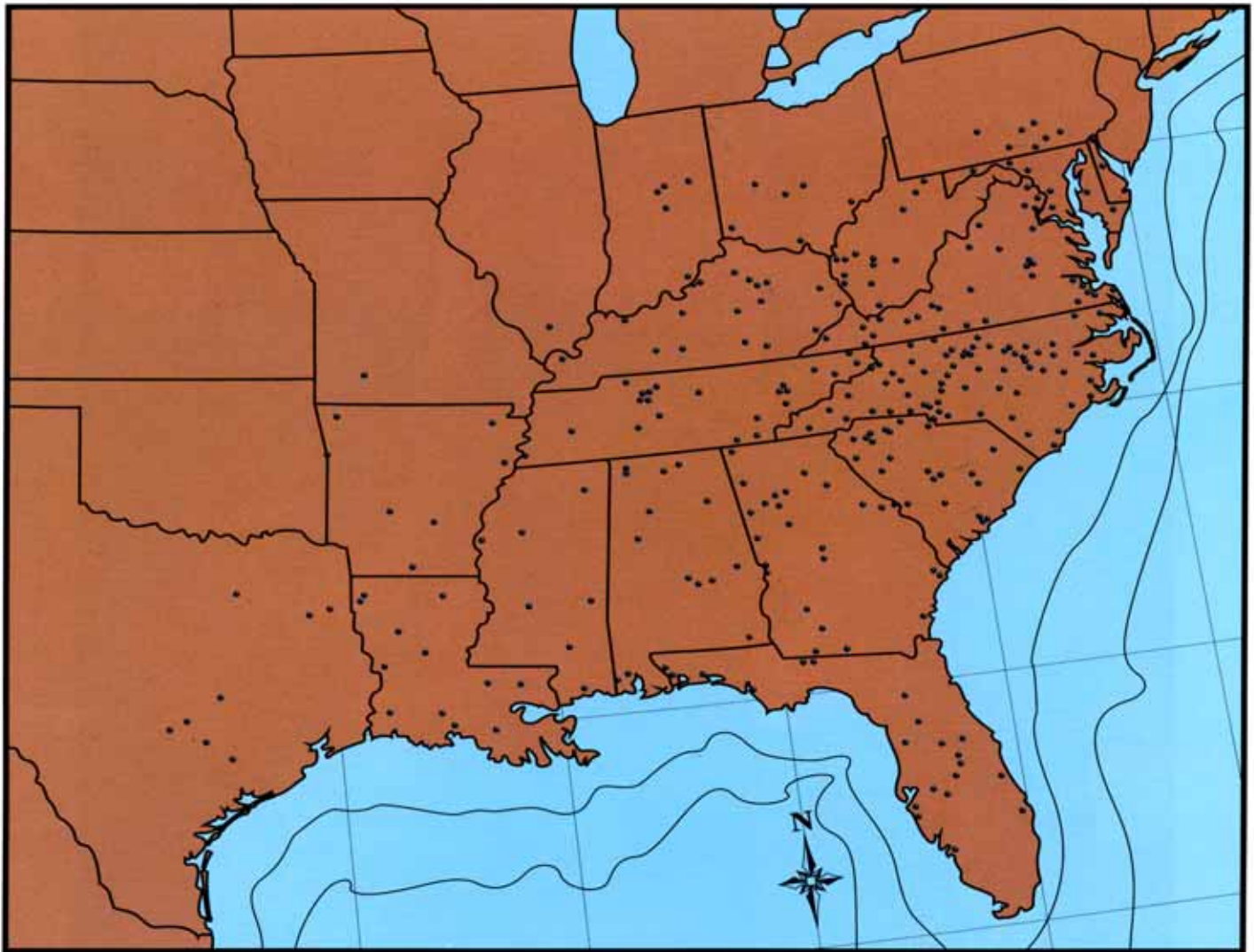
**Lowe’s sales of this propane torch, made by Newell Company, are increasing every year.**



# Lowe's Store Locations



P.T. Boat	Destroyer	Cruiser	Battleship
<b>Alabama</b>	Brunswick	Lafayette	Hickory
Auburn	Carrollton	Lake Charles	High Point
Decatur	College Park	Leesville	High Point (North)
Dothan	Columbus	Natchitoches	Jacksonville
Florence	Columbus (North)	New Iberia	Kannapolis
Gadsden	Doraville	Shreveport	Kinston
Huntsville	Douglasville	Thibodaux	Lenoir
Jasper	Fort Oglethorpe	West Monroe	Lexington
Mobile	Gainesville		Lincolnton
Mobile (West)	Griffin	<b>Maryland</b>	Lumberton
Montgomery	LaGrange	Bowie	Matthews
Montgomery (South)	Macon	Charles County	Monroe
Muscle Shoals	Moultrie	Cumberland	Morehead City
Prattville	Rome	Easton	Morganton
Tuscaloosa	Savannah	Frederick	Mount Airy
	Savannah (South)	Hagerstown	Murfreesboro
	Smyrna	Salisbury	New Bern
<b>Arkansas</b>	Thomasville		North Wilkesboro
El Dorado	Thomson	<b>Mississippi</b>	Raleigh
Fort Smith	Valdosta	Greenville	Raleigh (North)
Hot Springs	Warner Robins	Greenwood	Reidsville
Jonesboro		Gulfport	Rockingham
Pine Bluff	<b>Illinois</b>	Hattiesburg	Rocky Mount
Springdale	Marion	Jackson	Salisbury
West Memphis		Meridian	Sanford
	<b>Indiana</b>	Tupelo	Shelby
<b>Delaware</b>	Clarksville		Smithfield
Dover	Franklin	<b>Missouri</b>	Southern Pines
Wilmington	Indianapolis	Springfield	Southport
	Lawrence		Sparta
<b>Florida</b>	New Castle		Statesville
Bradenton	<b>Kentucky</b>	<b>North Carolina</b>	Washington
Fort Myers	Bowling Green	Albemarle	Waynesville
Fort Pierce	Corbin	Asheboro	Whiteville
Fort Walton Beach	Danville	Asheville	Wilmington
Gainesville	Elizabethtown	Banner Elk	Wilson
Inverness	Frankfort	Boone	Winston-Salem
Kissimmee	Glasgow	Burlington	Winston-Salem (Metro)
Lake County	Lexington	Cary	Zebulon
Lake Wales	Lexington (East)	Chapel Hill	
Lakeland	Louisville	Charlotte (#1)	
Maitland	Owensboro	Charlotte (#2)	
Melbourne	Paducah	Charlotte (North)	
Ocala	Paintsville	Charlotte	
Orange City	Pikeville	(Contractor Yard)	
Orlando	Richmond	Concord	
Panama City	Saint Matthews	Durham	
Pensacola	Somerset	Elizabeth City	
Pensacola (North)	Whitesburg	Fayetteville	
Sarasota	Winchester	Forest City	
Tallahassee		Franklin	
Tallahassee (NE)		Garner	
	<b>Louisiana</b>	Gastonia	
<b>Georgia</b>	Alexandria	Goldsboro	
Albany	Baker	Greensboro	
Athens	Bossier City	Greensboro (North)	
Augusta	Hammond	Greenville	
Augusta (West)		Hendersonville	
			<b>Ohio</b>
			Athens
			Cincinnati
			Circleville
			Lancaster
			Springfield
			Wheelersburg
			<b>Pennsylvania</b>
			Altoona
			Chambersburg
			Hanover
			Harrisburg
			Lancaster
			Mechanicsburg
			York



**South Carolina**

Aiken  
 Anderson  
 Charleston  
 Charleston (North)  
 Columbia (NE)  
 Columbia (West)  
 Easley  
 Florence  
 Gaffney  
 Greenville  
 Greenwood  
 Irmo  
 Laurens  
 Manning  
 Mauldin  
 Mount Pleasant  
 Myrtle Beach  
 Orangeburg  
 Rock Hill  
 Spartanburg  
 Sumter  
 Taylors  
 Westgate

**Tennessee**

Athens

Bartlett  
 Chattanooga  
 Clarksville  
 Cleveland  
 Columbia  
 Cookeville  
 Gallatin  
 Greeneville  
 Hermitage  
 Jackson  
 Johnson City  
 Kingsport  
 Knoxville  
 Knoxville (North)  
 Knoxville (West)  
 Lebanon  
 Madison  
 Maryville  
 Morristown  
 Murfreesboro  
 Nashville

**Texas**

Dallas  
 Fredericksburg  
 Longview  
 Marble Falls

San Marcos  
 Shiner  
 Temple  
 Tyler

**Virginia**

Bluefield  
 Bristol  
 Charlottesville  
 Chesapeake  
 Chester  
 Christiansburg  
 Churchland  
 Claypool Hill  
 Danville  
 Denbigh  
 Dublin  
 Fredericksburg  
 Harrisonburg  
 Leesburg  
 Lynchburg  
 Manassas  
 Marion  
 Martinsville  
 Midlothian Pike  
 Newport News  
 Richmond

Richmond (West)  
 Roanoke  
 Salem  
 South Boston  
 Staunton  
 Suffolk  
 Vienna  
 Virginia Beach  
 Winchester  
 Wise County  
 Woodbridge

**West Virginia**

Barboursville  
 Beckley  
 Belle  
 Chapmanville  
 Charleston  
 Clarksburg  
 Fairmont  
 Huntington  
 Matewan  
 Morgantown  
 Parkersburg  
 Princeton  
 Summersville  
 Teays Valley



**Whether they are long-time contributors like Iva Dean Grimes or relative newcomers like Ted Hagaman, Lowe's personnel find incentive and satisfaction in our Employee Stock Ownership Plan.**

**Russell B. Long, a member of Lowe's Board of Directors, served 38 years in the U.S. Senate, where he was a strong proponent of Employee Stock Ownership Plans. "I am enthusiastic about Lowe's ESOP," says the Senator. "It promotes employee dedication, loyalty, and better service."**





# Audited Financial Report

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## Management's Responsibility for Financial Reporting

Lowe's management is responsible for the preparation of the following financial statements, which conform to generally accepted accounting principles and include amounts representing our best judgments and estimates. Lowe's management also prepared the other information in this annual report and is responsible for its accuracy and consistency with the financial statements.

Lowe's Internal Audit Department monitors internal control systems and reports directly to the Audit Committee of our Board of Directors. We view the purpose of internal auditing as independent examination and assessment of company activities related to compliance with policy, procedures, and the law; the safeguarding of assets; the efficient use of resources; and the accomplishment of stated objectives and goals.

The Audit Committee of the Board of Directors consists of four independent directors. They report their findings to the Board and make a recommendation of independent accountants. For details please see the Audit Committee Chairman's Letter which follows.

Deloitte Haskins & Sells has reviewed our internal accounting systems and examined Lowe's financial statements according to generally accepted auditing standards. Their report provides an independent opinion on the fairness of our presentation of the statements.

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## Audit Committee Chairman's Letter

The members of the Audit Committee of the Board of Directors are William A. Andres, John M. Belk, Robert G. Schwartz, and Gordon E. Cadwgan, Chairman. The committee held four meetings during fiscal 1988.

The Audit Committee oversees the company's financial reporting process on behalf of the Board of Directors. The committee has recommended the engagement of Deloitte Haskins & Sells as the company's independent public accountants, subject to shareholders' approval at the annual meeting. The committee discussed with the internal auditors and the independent accountants the overall scope of, and specific plans for, their respective audits. The committee also met regularly with the internal auditors and independent public accountants, without management present, to discuss their assessments of internal controls and the accuracy, as well as the overall quality of, Lowe's financial reporting.

Gordon E. Cadwgan  
Chairman, Audit Committee

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## Independent Auditors' Report

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

We have audited the consolidated balance sheets of Lowe's Companies, Inc. and subsidiary companies as of January 31, 1989, 1988 and 1987, and the related consolidated statements of current and retained earnings and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lowe's Companies, Inc. and subsidiary companies at January 31, 1989, 1988 and 1987, and the consolidated results of their operations and their cash flows for the fiscal years then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for income taxes in the fiscal year ended January 31, 1988.

Deloitte Haskins & Sells  
Charlotte, North Carolina  
March 17, 1989

# Consolidated Statements of Current and Retained Earnings

Lowe's Companies, Inc. and Subsidiary Companies  
Dollars in Thousands, Except Per Share Data

Fiscal Years End on January 31 of Following Year

	Fiscal 1988	% Sales	Fiscal 1987	% Sales	Fiscal 1986	% Sales
<b>Current Earnings</b>						
<b>Net Sales</b>	<b>\$2,516,879</b>	<b>100%</b>	<b>\$2,442,177</b>	<b>100%</b>	<b>\$2,283,480</b>	<b>100%</b>
Cost of Sales	1,916,433	76.1	1,858,240	76.1	1,724,370	75.5
<b>Gross Margin</b>	<b>600,446</b>	<b>23.9</b>	<b>583,937</b>	<b>23.9</b>	<b>559,110</b>	<b>24.5</b>
Expenses:						
Selling, General and Administrative	410,060	16.4	403,672	16.5	382,812	16.8
Depreciation	41,184	1.6	38,546	1.6	30,474	1.3
Employee Retirement Plans (Note 7)	22,608	.9	21,700	.9	23,950	1.1
Interest (Note 12)	20,990	.8	19,474	.8	13,748	.6
Store Closings (Note 13)	—		9,758	.4	—	
<b>Total Expenses</b>	<b>494,842</b>	<b>19.7</b>	<b>493,150</b>	<b>20.2</b>	<b>450,984</b>	<b>19.8</b>
Pre-Tax Earnings Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	105,604	4.2	90,787	3.7	108,126	4.7
Income Tax Provision (Note 6)	36,403	1.5	34,833	1.4	53,022	2.3
Earnings Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	69,201	2.7	55,954	2.3	55,104	2.4
Extraordinary Item: Debt Retirement Net of Taxes of \$2,798 (Note 5)	—		—		(2,885)	(.1)
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes (Note 6)	—		5,226	.2	—	
<b>Net Earnings</b>	<b>\$ 69,201</b>	<b>2.7%</b>	<b>\$ 61,180</b>	<b>2.5%</b>	<b>\$ 52,219</b>	<b>2.3%</b>
Shares Outstanding — Weighted Average	37,748		39,719		39,029	
Earnings Per Share:						
Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	\$ 1.83		\$ 1.41		\$ 1.41	
Effect of Extraordinary Item	—		—		(.07)	
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes	—		.13		—	
<b>Earnings Per Share</b>	<b>\$ 1.83</b>		<b>\$ 1.54</b>		<b>\$ 1.34</b>	
<b>Retained Earnings</b> (Notes 5 and 8)						
	<b>Amount</b>	<b>Per Share</b>	<b>Amount</b>	<b>Per Share</b>	<b>Amount</b>	<b>Per Share</b>
<b>Balance at Beginning of Year</b>	<b>\$ 388,414</b>		<b>\$ 344,274</b>		<b>\$ 306,613</b>	
Net Earnings	69,201	\$ 1.83	61,180	\$ 1.54	52,219	\$ 1.34
Cash Dividends (Notes 5 and 8)	(17,281)	\$ (.46)	(17,040)	\$ (.43)	(15,597)	(.40)
Tax Benefit of ESOP Dividend (Note 6)	—		—		1,039	\$ .03
<b>Balance at End of Year</b>	<b>\$ 440,334</b>		<b>\$ 388,414</b>		<b>\$ 344,274</b>	

See accompanying notes to consolidated financial statements.

# Management Analysis: Lowe's Financial Strategies

## Earnings Analysis

Lowe's 1988 earnings reflect the success of our growth strategies, gross margin maintenance, tight expense controls, and a lower tax rate.

Our newer, bigger stores continue to set a high standard for sales growth. As seen in the graph on the facing page, 123 Lowe's stores either are new or have undergone major renovation since 1985. This 42% of our fleet has provided 86% of our sales growth over the past three years. As we continue to replace Lowe's PT boats with more Cruisers and Battleships, the curve of our sales growth will reflect the growing firepower of Lowe's fleet.

At \$600 million, our 1988 margin was the highest ever. Although as a percent of sales the gross margin stuck to last year's level, the selling margin (figured before LIFO charges, shrinkage, and capitalized purchasing costs) was 25.24%, our highest in three years.

Improvement in the selling margin can be attributed to the higher percentage of retail sales in our overall sales mix. Retail sales grew from 56.32% to 59% of the year's total sales, and retail margins lifted the overall selling margin in spite of competitive pricing pressures.

Inflation in some of the products we sell is revealed by an adjustment from FIFO to LIFO margin. Back in 1986 we had a LIFO credit of \$3 million. Since then the current has shifted slightly, and in 1988 we had a LIFO charge of \$5.1 million. The cumulative impact of this shift is one reason why the gross margin hasn't appeared more dynamic.

Selling, general, and administrative expenses declined as a percent of sales for the second straight year, finishing 1988 at 16.4%, down from 16.5% in 1987 and 16.8% in 1986. As a percent of sales, Lowe's SG&A continues to be one of the lowest in retailing, despite the pressures of our expansion. This control gives us positive leverage on our total sales as they grow more quickly than our expenses.

Depreciation increased 6.8%, compared with 26.5% last year and 40% in 1986. Depreciation is related to Lowe's fixed assets, with a variable lag time between acquisition of property and increases in depreciation expenses. By compounding the four-year change from 1984 to 1988 in net property and depreciation, we can more easily see the relationship between the two. Since 1984, fixed assets have grown at a compound rate of 25.2%, while depreciation expenses have increased 29.1%.

Contributions to the Employee Stock Ownership Plan as a percentage of eligible employee compensation were held at 13% in 1988. However, the eligibility rate declined slightly due to a change in plan entrance rules.

In 1988 Lowe's acquired \$19 million of new long-term debt, down from a \$46 million increase last year. Keeping interest expenses down by keeping debt acquisition low is another facet of our financial management strategy. Interest expenses increased 7.8%, but showed no increase over last year as a percent of sales.

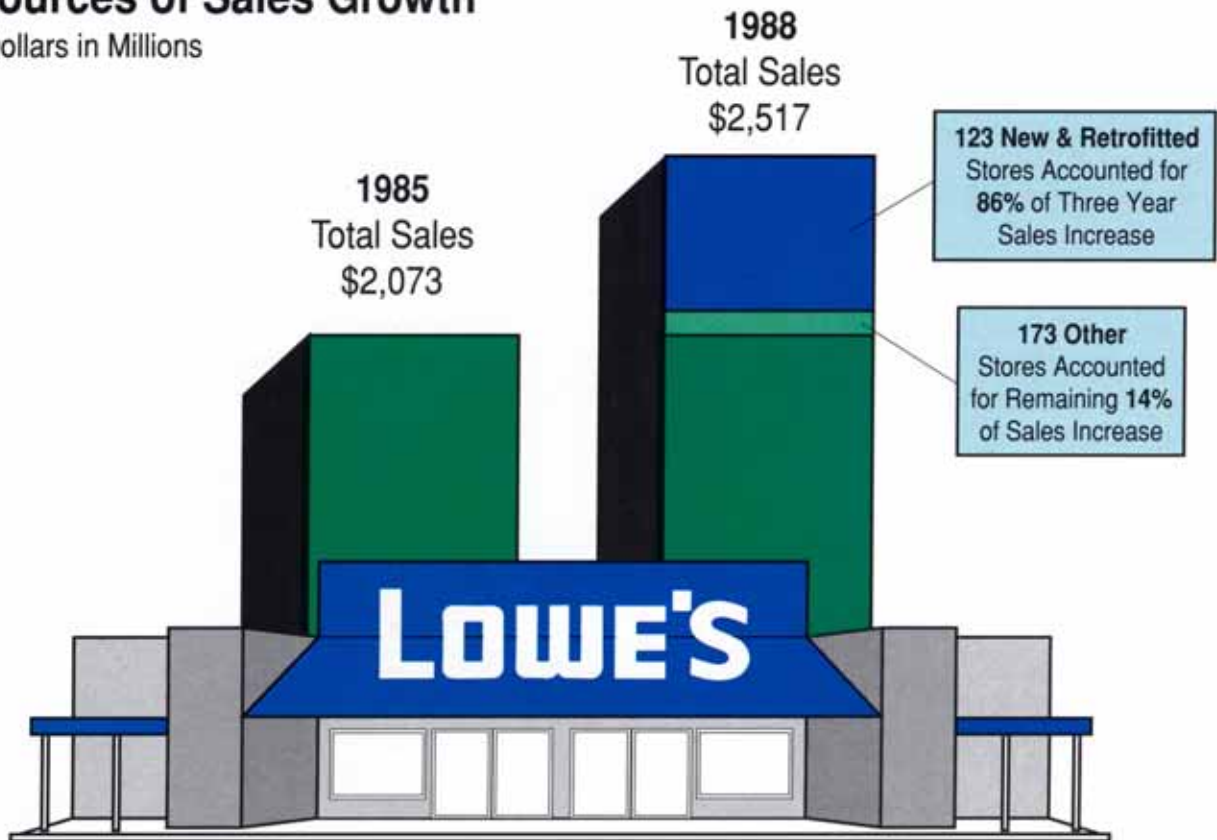
We closed six stores during fiscal 1988, but the impact of these closings was insignificant because unlike the 16 store closings of December 1987, they were not concentrated in one month.

Our \$36.4 million income tax provision for 1988 was 34.5% of earnings, a 3.9% decrease from last year and a 14.5% improvement over the 49% rate of 1986. The dominant factor in this dramatic three-year change has been the decrease in the federal statutory tax rate from 46% in 1986 to 34% in the year just ended. State income tax rates have remained fairly level. During the past three years we have aggressively taken advantage of legal tax benefits on behalf of our shareholders. For more detailed information, please refer to Note 6.

In 1987 we elected to adopt Statement of Financial Accounting Standards No. 96 (SFAS No. 96), which provided for implementation of a lower tax rate in accounting for deferred taxes. Since we did not elect to restate financial statements for prior years, the \$5.2 million cumulative effect of SFAS No. 96 appears in fiscal 1987.

## Sources of Sales Growth

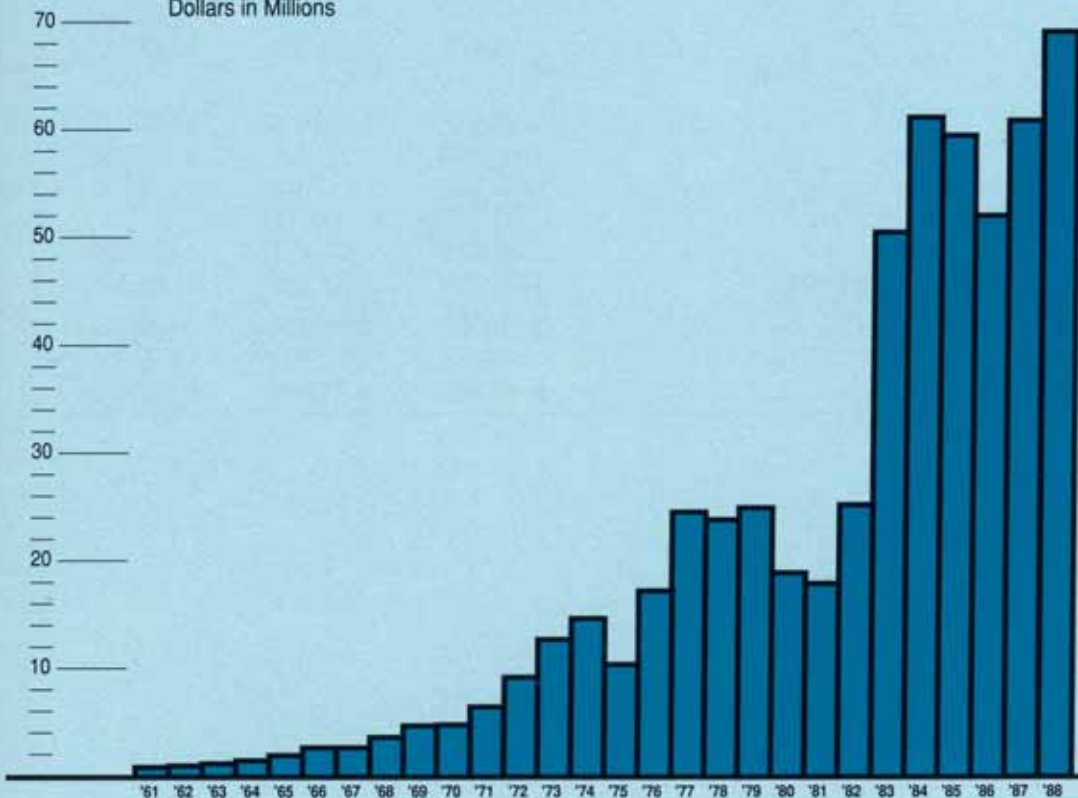
Dollars in Millions



Note: Since February 1, 1985, there have been 61 new stores constructed, and 62 retrofits and relocations have been completed.

## 27-Year Earnings Growth

Dollars in Millions



# Consolidated Statements of Cash Flows

Lowe's Companies, Inc. and Subsidiary Companies  
Dollars in Thousands

Fiscal Years End on January 31 of Following Year

	Fiscal 1988	Fiscal 1987	Fiscal 1986
<b>Cash Flows From Operating Activities:</b>			
Net Earnings	\$ 69,201	\$ 61,180	\$ 52,219
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:			
Depreciation	41,184	38,546	30,474
Deferred Income Taxes	5,155	(1,109)	5,165
(Gain) Loss on Disposition of Fixed Assets	(627)	4,689	(315)
<b>Cash From Operating Activities*</b>	<b>\$114,913</b>	<b>\$103,306</b>	<b>\$ 87,543</b>
Changes in Assets and Liabilities:			
Accounts Receivable — Net	(9,806)	761	8,910
Merchandise Inventory	(5,537)	(5,711)	(54,992)
Accounts Payable	46,867	(6,171)	(4,808)
Employee Retirement Plans	20,633	15,396	12,344
Other Current Assets	(2,141)	2,717	(3,329)
Other Current Liabilities	3,457	(2,034)	9,506
<b>Net Cash Provided by Operating Activities</b>	<b>\$168,386</b>	<b>\$108,264</b>	<b>\$ 55,174</b>
<b>Cash Flows From Investing Activities:</b>			
Fixed Assets Acquired	(81,611)	(92,248)	(131,234)
Proceeds From the Sale of Fixed Assets	5,232	2,479	4,609
Other Long-Term Assets	2,502	4,236	3,769
<b>Net Cash Used in Investing Activities</b>	<b>\$ (73,877)</b>	<b>\$ (85,533)</b>	<b>\$ (122,856)</b>
<b>Cash Flows From Financing Activities:</b>			
<b>Sources:</b>			
Long-Term Debt Borrowings	\$ 18,752	\$ 45,793	\$ 9,556
Net Short-Term Borrowings	16	240	—
Stock Options Exercised	127	129	917
Common Stock Sold	—	—	83,039
<b>Total Financing Sources</b>	<b>\$ 18,895</b>	<b>\$ 46,162</b>	<b>\$ 93,512</b>
<b>Uses:</b>			
Repayment of Long-Term Debt	\$ (14,259)	\$ (21,010)	\$ (47,410)
Cash Dividends	(17,281)	(17,040)	(15,597)
Common Stock Purchased for Treasury	(47,633)	(2,367)	—
Common Stock Purchased for ESOP Contribution	(17,863)	(34,600)	—
<b>Total Financing Uses</b>	<b>(97,036)</b>	<b>(75,017)</b>	<b>(63,007)</b>
<b>Net Cash Provided by (Used In) Financing Activities</b>	<b>\$ (78,141)</b>	<b>\$ (28,855)</b>	<b>\$ 30,505</b>
Net Increase (Decrease) in Cash**	\$ 16,368	\$ (6,124)	\$ (37,177)
Cash** Beginning of Year	43,889	50,013	87,190
<b>Cash** End of Year</b>	<b>\$ 60,257</b>	<b>\$ 43,889</b>	<b>\$ 50,013</b>

\*Before adjustments for changes in related assets and liabilities.

\*\*Cash and short-term investments (Note 1)

Supplemental cash flow information (Note 12)

See accompanying notes to consolidated financial statements.

# Management Analysis: Lowe's Financial Strategies

## Cash Flows Analysis

In 1988 we adopted Statement of Financial Accounting Standards No. 95, providing "Statements of Cash Flows" to replace the "Statements of Changes in Financial Position" used in previous years. This new statement classifies cash receipts and payments according to their sources and uses in operating activities, investing activities, and financing activities. To facilitate comparisons, we restated 1987 and 1986 to present Statements of Cash Flows.

Our graph of Lowe's Cash Inflow From Operations (next page, top) illustrates the dynamic components of our cash from operating activities. Our \$8 million improvement in net earnings for 1988 greatly strengthened this fundamental component. Since 1986 we have achieved a 33% growth in earnings, an upward trend in profitability that should continue as our investment in expansion increasingly pays off.

Depreciation and deferred income taxes are adjustments to earnings because they are charges for which no cash is required. Depreciation is the periodic expensing of assets over their estimated useful lives. Since 1984 we have more than doubled our retail sales square footage, and we are still depreciating assets which were acquired to achieve that expansion. Our graph shows that in the last two years, the effect of depreciation on cash flows has increased by growing at a rate of 35%.

On our graph, deferred income taxes are combined as a cash flow adjustment with gains or losses from the disposition of fixed assets. Deferred income taxes for 1988 were \$5.2 million. In 1987 we adopted SFAS No. 96, which provided for implementation of a lower tax rate, and elected not to restate prior years. The net result was a credit of \$1.1 million.

The total of these cash flow adjustments, plus earnings, was \$114.9 million for 1988, an 11% increase over last year and a gain of 31% since 1986.

Our graph of Cash Used in Investing Activities illustrates a trend in Lowe's capital spending. Two years ago, net cash outflow for fixed asset and other long-term asset acquisition was \$122.9 million. Last year our net investment was \$85.5 million. In 1988, these acquisitions were held to \$73.9 million. That's a two-year decline of \$49 million, reflecting a change in our expansion strategy.

Another significant change is visible in our graph of External Sources of Cash, which shows our decreasing need for operational funds from outside sources. In 1986 we obtained \$83 million from an equity offering. In 1987 \$46 million was provided by long-term debt borrowings. In 1988 we acquired an additional \$19 million in long-term debt; however, we also retired some outstanding debt, so the net increase in long-term debt was only \$4 million. The major sources of our 1988 financing were internal. Significantly, we expect 1989 to resemble 1988 in this respect.

In 1988, we purchased \$65.5 million of Lowe's stock in the open market, converting 2,366,850 shares into treasury stock and thereby reducing the number of shares outstanding to 37.1 million. The remaining \$17.9 million of purchased stock was used to partially pre-fund our 1988 ESOP contribution. (For further discussion of Lowe's equity purchases, please refer to Note 8 of these financial statements.)

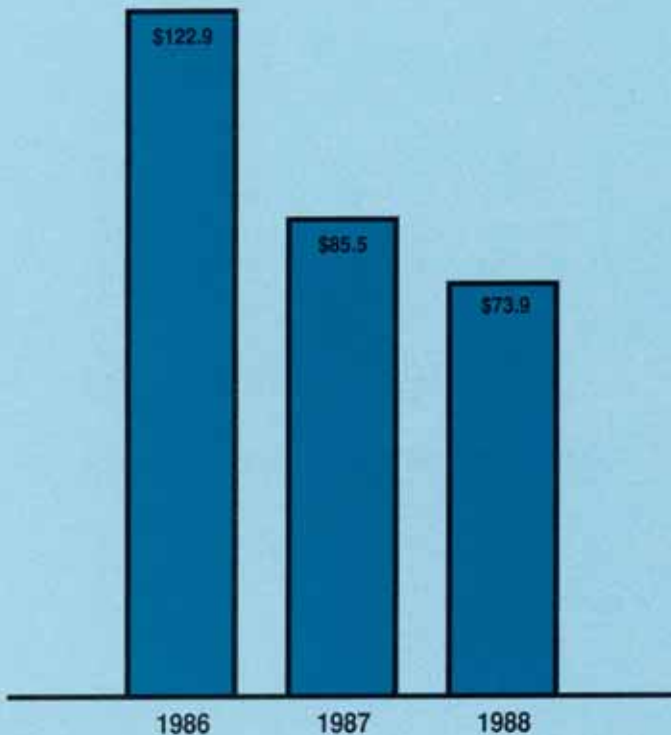
## Cash from Operating Activities\* (In Flow)

Dollars in Millions



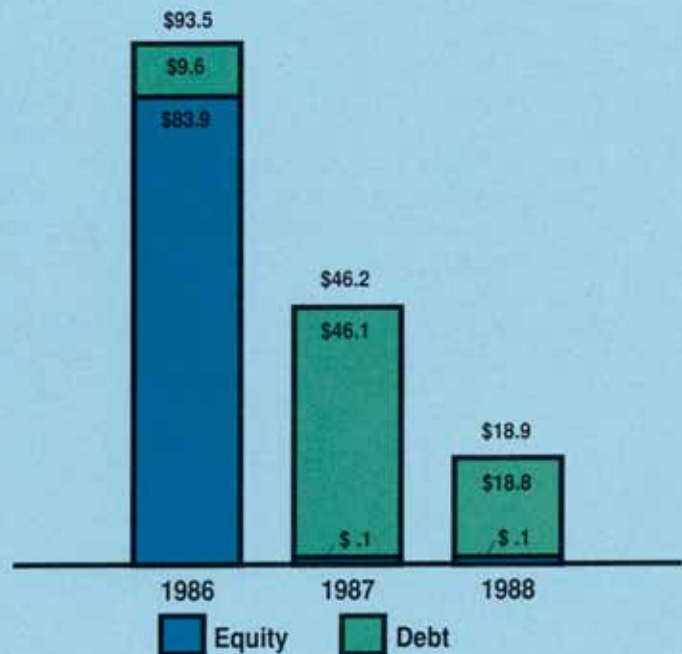
## Cash Used in Investing Activities (Out Flow)

Dollars in Millions



## External Sources of Cash

Dollars in Millions



# Consolidated Balance Sheets

Lowe's Companies, Inc. and Subsidiary Companies  
Dollars in Thousands

January 31,

	1989	%	1988	%	1987	%
<b>Assets</b>						
<b>Current Assets:</b>						
Cash and Cash Equivalents (Note 12)	\$ 60,257	5.5%	\$ 43,889	4.3%	\$ 50,013	5.2%
Accounts Receivable — Net (Note 12)	127,738	11.8	117,932	11.5	118,693	12.2
Merchandise Inventory (Note 2)	379,383	34.9	373,846	36.4	368,135	38.0
Deferred Income Taxes (Note 6)	706	.1	9,472	.9	—	
Other Assets	9,466	.9	7,325	.7	10,042	1.0
<b>Total Current Assets</b>	<b>577,550</b>	<b>53.2</b>	<b>552,464</b>	<b>53.8</b>	<b>546,883</b>	<b>56.4</b>
Property, Less Accumulated Depreciation (Notes 3 and 5)	479,886	44.2	453,008	44.1	413,220	42.6
Other Assets (Note 13)	28,361	2.6	21,857	2.1	9,116	1.0
<b>Total Assets</b>	<b>\$1,085,797</b>	<b>100.0%</b>	<b>\$1,027,329</b>	<b>100.0%</b>	<b>\$969,219</b>	<b>100.0%</b>
<b>Liabilities and Shareholders' Equity</b>						
<b>Current Liabilities:</b>						
Current Maturities of Long-Term Debt (Note 5)	\$ 12,391	1.1%	\$ 11,674	1.1%	\$ 9,902	1.0%
Short-Term Notes Payable	256		240		—	
Accounts Payable	203,956	18.9	157,089	15.3	163,260	16.8
Employee Retirement Plans (Note 7)	6,537	.6	3,767	.4	22,971	2.4
Accrued Salaries and Wages	18,382	1.7	15,370	1.5	14,002	1.4
Other Current Liabilities	44,211	4.1	43,766	4.3	47,168	4.9
<b>Total Current Liabilities</b>	<b>285,733</b>	<b>26.4</b>	<b>231,906</b>	<b>22.6</b>	<b>257,303</b>	<b>26.5</b>
Long-Term Debt, Excluding Current Maturities (Note 5)	190,056	17.5	186,219	18.1	152,977	15.8
Deferred Income Taxes (Note 6)	23,157	2.1	26,768	2.6	18,405	1.9
<b>Total Liabilities</b>	<b>498,946</b>	<b>46.0</b>	<b>444,893</b>	<b>43.3</b>	<b>428,685</b>	<b>44.2</b>
Commitments, Contingencies and Litigation (Note 11)	—		—		—	
<b>Shareholders' Equity</b> (Note 8)						
Common Stock — \$.50 Par Value;						
Issued						
Outstanding						
1989	39,637,900		37,138,950			
1988	39,630,050		39,497,950			
1987	39,624,025		39,624,025			
	19,819	1.8	19,815	1.9	19,812	2.0
Capital in Excess of Par	176,698	16.3	176,574	17.2	176,448	18.2
<b>Retained Earnings</b>	<b>440,334</b>	<b>40.6</b>	<b>388,414</b>	<b>37.8</b>	<b>344,274</b>	<b>35.6</b>
<b>Subtotal</b>	<b>636,851</b>	<b>58.7</b>	<b>584,803</b>	<b>56.9</b>	<b>540,534</b>	<b>55.8</b>
Less Treasury Stock of 2,498,950 Shares at 1989 and 132,100 Shares at 1988 at Cost	50,000	(4.7)	2,367	(.2)	—	
<b>Total Shareholders' Equity</b>	<b>586,851</b>	<b>54.0</b>	<b>582,436</b>	<b>56.7</b>	<b>540,534</b>	<b>55.8</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$1,085,797</b>	<b>100.0%</b>	<b>\$1,027,329</b>	<b>100.0%</b>	<b>\$969,219</b>	<b>100.0%</b>

See accompanying notes to consolidated financial statements.



# Management Analysis: Lowe's Financial Strategies

## Balance Sheet Analysis

Lowe's year-end balance sheet is a financial snapshot of our company which complements the information provided in our cash flows statement. We take pride in Lowe's balance sheet, which reflects our stewardship of assets and liabilities.

In examining the asset section, we see that our asset components have maintained a notable stability. Accounts receivable finished the year \$9.8 million higher than in fiscal 1987, but held below the 1986 level as a percent of total assets. Accounts receivable rose due to increases in our January building contractor business.

Inventory at the end of the year also reflects our careful management, decreasing steadily as a percent of total assets from 38% two years ago to 34.9% for 1988.

Property consists of land, buildings, store and office equipment, and leasehold improvements. In the past two years, Lowe's property (less depreciation) has grown \$66.7 million as a result of expansion. "Other assets" refers primarily to non-producing properties being held for sale.

In the liabilities section of our balance sheet, accounts payable finished the year at \$203.9 million. This \$46.8 million increase reflects our high January purchase volume, which fed the 23% growth of contractor sales and the 20% growth of retail sales in that month.

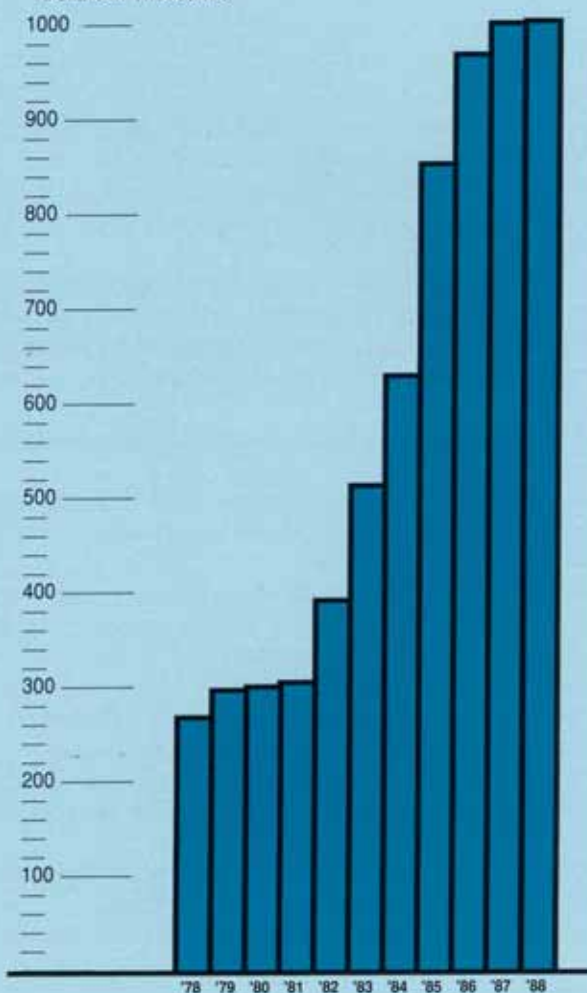
Total current liabilities for 1988 were higher than last year's but still lower than in 1986 as a percent of total liabilities and shareholders' equity.

At the end of the fiscal year, Lowe's was committed to invest approximately \$28 million for land, buildings, and store facilities construction, and \$4.7 million for equipment, all relating to future expansion.

Total shareholders' equity does not appear dynamic, due to the subtraction of a cumulative \$50 million in equity that has been repurchased for Lowe's treasury since December, 1987. However, examination of shareholders' equity before the subtraction of that treasury stock reveals significant growth. From 1986 to 1988, prior to the repurchase, equity grew from \$540.5 million to \$636.9 million — an increase of \$96 million. By purchasing equity for Lowe's treasury, thereby reducing the number of shares outstanding, we increased share value for our shareholders. Indeed, book value per share grew from \$14.75 to \$15.80 during fiscal 1988.

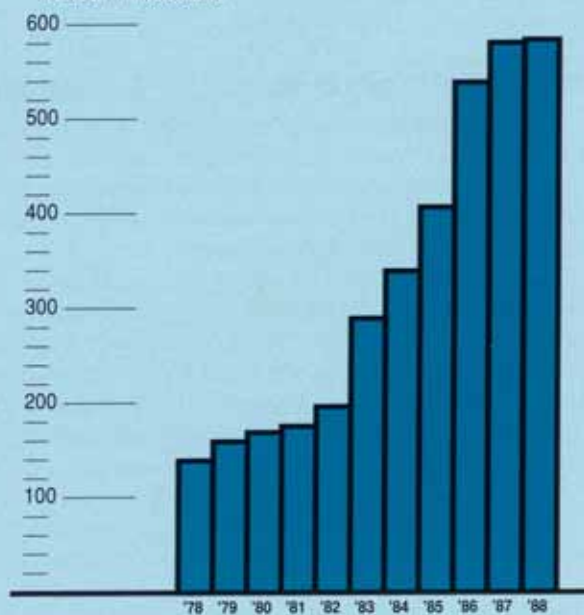
### Total Assets

Dollars in Thousands



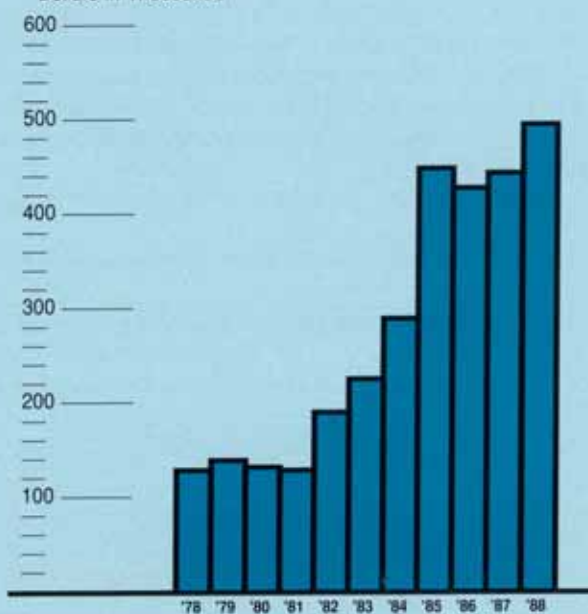
### Total Shareholders' Equity

Dollars in Thousands



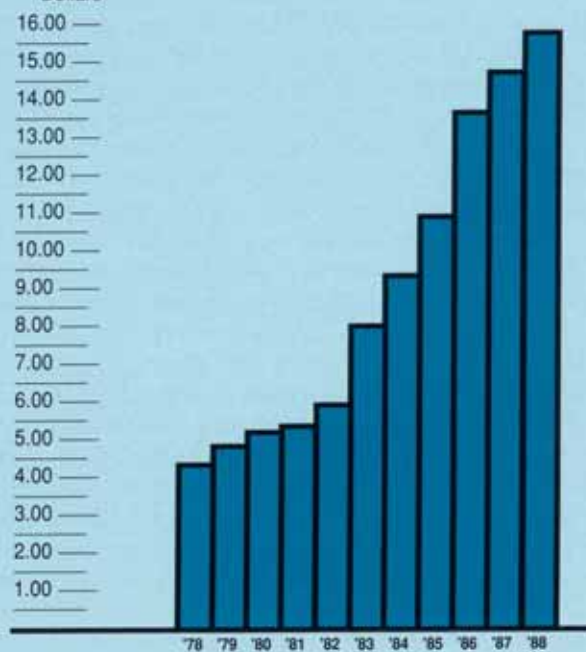
### Total Liabilities

Dollars in Thousands



### Book Value

Dollars



# Notes to Consolidated Financial Statements

Lowe's Companies, Inc. and Subsidiary Companies  
Fiscal Years Ended January 31, 1989, 1988 and 1987

## Note 1, Summary of Significant Accounting Policies:

The Company is a specialty retailer in the building contractor business, the consumer durables business, and the do-it-yourself home center business. Below are those policies considered particularly significant.

*Subsidiaries and 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.

*Statement of Cash Flows* — In Fiscal 1988, the Company adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," which replaces the statement of changes in financial position with a statement of cash flows. A statement of cash flows classifies cash receipts and payments by operating, investing and financing activities. The Company has also restated the prior years financial statements to present a statement of cash flows for Fiscal 1987 and 1986.

*Cash and Cash Equivalents* — Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with maturities of three months or less.

*Short-Term Investments* — The Company has a cash management program which provides for the investment of excess cash balances in short-term instruments which generally mature within 30 days. These investments are stated at cost which approximates market. Interest is accrued when earned.

*Accounts Receivable* — The allowance for doubtful accounts is based on historical experience and a review of existing receivables. Sales generated through the Company's private label credit card and consumer installment sales are not reflected in receivables; they are sold, without recourse, to outside finance companies.

*Merchandise Inventory* — Inventory is stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method. The Company includes in inventory cost the administrative, warehousing, and other costs directly associated with buying, distributing, and maintaining the inventory in a condition for resale.

*Property and Depreciation* — Property is recorded at cost. Costs associated with major additions are capitalized and depreciated. Upon disposal, cost of properties and related accumulated depreciation are removed from the accounts with gains and losses reflected in earnings.

The provision for depreciation is based generally on accelerated methods for assets placed in service before January 1, 1981; subsequent property additions are depreciated on the straight-line method.

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

*Income Taxes* — In Fiscal 1987, the Company changed its method of accounting for income taxes to conform with the provisions of Statement of Financial Accounting Standards No. 96 (SEAS No. 96), "Accounting for Income Taxes" which was issued in December 1987. SEAS No. 96 requires the use of the liability method of accounting for income taxes wherein a deferred tax liability or asset is determined based on temporary differences between the tax and financial accounting bases of assets and liabilities as of the balance sheet date multiplied by the statutory tax rate in effect at the time the differences will reverse. Prior to Fiscal 1987, deferred income taxes resulted from timing differences between pre-tax financial accounting income and taxable income using tax rates in effect when the timing difference originated. As permitted by SEAS No. 96, the Company did not restate the financial statements of years prior to Fiscal 1987 and, accordingly, the cumulative effect of the accounting change on prior years is included in Fiscal 1987 earnings (Note 6).

Investment tax credits have been accounted for as a reduction of income tax expense in the year in which the credits were utilized (the flow-through method).

*Employee Retirement Plans* — Since 1957 the Company has maintained benefit plans for its employees as described in Note 7. The plans are funded annually.

*Interest Costs* — Interest costs associated with new store construction are capitalized and charged to earnings over the lives of the related assets.

*Earnings Per Share* — Earnings per share are calculated on the weighted average shares of common stock and dilutive common stock equivalents outstanding each year.

## Note 2, Merchandise Inventory:

The Company uses the LIFO method to determine inventory costs. If the first-in, first-out (FIFO) method had been used, inventories would have been \$30.7 million, \$25.6 million and \$21.8 million higher at January 31, 1989, 1988 and 1987, respectively. Under FIFO, net earnings would have increased \$3.2 million or 8 cents per share in Fiscal 1988, increased \$2.2 million or 6 cents per share in Fiscal 1987, and decreased \$1.5 million or 4 cents per share in Fiscal 1986.

### Note 3, Property and Accumulated Depreciation:

The estimated depreciable lives in years, of the Company's property are: buildings, 20 to 30; store and office equipment, 3 to 10; and leasehold improvements, generally the life of the related lease.

Net property includes \$21.7 million, \$27.0 million and \$22.4 million in assets under capital leases for Fiscal 1988, 1987 and 1986, respectively.

Property is summarized below by major class:

	January 31,		
	1989	1988	1987
Dollars in Thousands			
<b>Cost:</b>			
Land	\$ 96,916	\$ 87,439	\$ 77,595
Buildings	316,620	285,477	258,559
Store and Office Equipment	195,551	185,046	165,838
Leasehold Improvements	32,506	29,553	28,097
<b>Total Cost</b>	<b>641,593</b>	<b>587,515</b>	<b>530,089</b>
Accumulated Depreciation	(161,707)	(134,507)	(116,869)
<b>Net Property</b> (Note 10)	<b>\$479,886</b>	<b>\$453,008</b>	<b>\$413,220</b>

### Note 4, Short-Term Borrowings and Lines of Credit:

The Company has agreements with a group of banks which provide for short-term unsecured borrowings of up to \$65 million with interest at the lower of prime or bank transaction rate.

In addition, several banks have extended to the Company lines of credit aggregating \$120 million for the purpose of issuing letters of credit and bankers' acceptances or other short-term borrowings.

The following relates to aggregate short-term borrowing from banks and using the Company's commercial paper in Fiscal 1988, 1987 and 1986, none of which were outstanding at January 31, 1989, 1988 and 1987:

Category of Aggregate Short-Term Borrowings	Maximum Amount Outstanding During the Period	Average Amount Outstanding During the Period	Weighted Average Interest Rate During the Period
<b>Fiscal 1988</b>			
Commercial Paper	\$68,733,000	\$37,777,314	7.6%
Bank Borrowings	85,000,000	28,836,377	8.0
<b>Fiscal 1987</b>			
Commercial Paper	75,950,000	52,328,168	6.7
Bank Borrowings	56,500,000	10,194,880	7.8
<b>Fiscal 1986</b>			
Commercial Paper	—	—	—
Bank Borrowings	\$ 15,000	\$ 2,973	6.6%

### Note 5, Long-Term Debt:

Debt Category	Interest Rates January 31, 1989	Year of Maturity	January 31,		
			1989	1988	1987
Dollars in Thousands					
<b>Secured Debt <sup>1</sup>:</b>					
Insurance Company Notes	6.75% to 9%	1998	\$ 9,853	\$ 12,739	\$ 15,795
Bank Notes	7% to 12%	1994	282	352	493
Industrial Revenue Bonds	7% to 10.526%	2014	2,410	2,570	2,720
Industrial Revenue Bonds	64% to 77% of Prime	1998	5,163	6,173	7,007
Other Notes	2% to 10%	2004	1,813	2,069	1,395
<b>Unsecured Debt:</b>					
Insurance Company Notes <sup>2</sup>	8.25% to 12.75%	1994	33,900	36,000	38,100
Industrial Revenue Bonds	62% to 63% of Prime	2000	16,924	17,245	17,245
Industrial Revenue Bonds <sup>3</sup>	5.4%	2005	11,700	11,700	11,700
Unsecured Notes	11.5%	1995	44,882	44,863	44,843
Bank Notes <sup>2</sup>	6.3% to 6.4%	1994	51,955	34,600	—
<b>Capital Leases</b> (Note 10)	<b>5.74% to 15.98%</b>	<b>2018</b>	<b>23,565</b>	<b>29,582</b>	<b>23,581</b>
<b>Total Long-Term Debt</b>			<b>202,447</b>	<b>197,893</b>	<b>162,879</b>
<b>Less Current Maturities</b>			<b>12,391</b>	<b>11,674</b>	<b>9,902</b>
<b>Long-Term Debt, Excluding Current Maturities</b>			<b>\$190,056</b>	<b>\$186,219</b>	<b>\$152,977</b>

Note 5 Continued

The Company, in a public offering on April 1, 1985, issued \$75 million of 11.5% unsecured notes at a discount of .426%. The discount and issuance costs are being amortized over the life of the indebtedness. In January 1987, the Company accelerated the retirement of \$30 million of this debt and, as a result, incurred \$5.7 million of early retirement costs which reduced Fiscal 1986 earnings by 7 cents per share. These early retirement costs are shown net of related income tax effects as an extraordinary item in the accompanying consolidated statement of current and retained earnings for Fiscal 1986. The remaining notes may be redeemed in whole or in part, without penalty, by the Company at any time after April 1, 1992 at the principal amount and accrued interest to the date fixed for redemption. The notes are governed by an indenture which, among other things, places certain restrictions on the issuance or guarantee of additional indebtedness.

During February and March of 1989, the Company accelerated the retirement of an additional \$17.15 million of this debt and, as a result, incurred \$781 thousand of early retirement costs.

In 1988 the Company entered into two interest rate agreements (interest rate swaps) with a bank for initial aggregate amounts of \$9 million and \$11.9 million. Under the first agreement, the Company is required to pay interest at a fixed rate of 9.49%. In return the Company will receive interest payments on the same declining principal balance calculated at prime rate, fixed quarterly. Under the second agreement, the Company is required to pay interest at 70% of prime rate, fixed quarterly. In return the Company will receive interest payments on the same declining principal balance at a fixed rate of 7.29%.

Debt maturities, exclusive of capital leases (see Note 10), for the next five fiscal years are as follows (in millions): 1989, \$8.0; 1990, \$6.3; 1991, \$16.0; 1992, \$15.0; 1993, \$13.7.

- <sup>1</sup> Real properties pledged as collateral for secured debt had net book values, in millions, at January 31, 1989, as follows: insurance company notes — \$49.7; bank notes — \$7; industrial revenue bonds — \$13.3; and other notes — \$9.2.
- <sup>2</sup> The unsecured bank loans were obtained for the purpose of acquiring the Company's common stock for contributing to the ESOP. These loans and the insurance company notes require that certain financial conditions be maintained, restrict other borrowings, and limit the payment of dividends. After giving effect to the most restrictive provisions, approximately \$181.9 million of consolidated retained earnings is available for payment of dividends, limited to \$40 million during any one year.
- <sup>3</sup> The Company issued notes to secure \$11.7 million floating rate monthly demand industrial revenue bonds in Fiscal 1985. The interest rates are tied to an interest index based on comparable securities traded at par and other pertinent financial market rates. With certain restrictions the bonds can be converted to a fixed interest rate based on a fixed interest index at the Company's option.

**Note 6, Income Taxes:**

Fiscal Years End on January 31 of Following Year	Fiscal 1988		Fiscal 1987		Fiscal 1986	
	Amount	%	Amount	%	Amount	%
Dollars in Thousands						
<b>Statutory Rate Reconciliation</b>						
Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle:						
<b>Income Before Income Taxes</b>	<b>\$105,604</b>	<b>100.0%</b>	<b>\$ 90,787</b>	<b>100.0%</b>	<b>\$108,126</b>	<b>100.0%</b>
Federal Income Tax at Statutory Rate	35,905	34.0	35,407	39.0	49,738	46.0
State Income Taxes — Net of Federal Tax Benefit	3,951	3.7	3,323	3.6	3,739	3.4
Investment Tax Credits	(391)	(.3)	(1,916)	(2.1)	(306)	(.3)
Targeted Jobs Tax Credits	(583)	(.5)	(401)	(.4)	—	—
Effect of ESOP Dividend Pass Through	(1,013)	(1.0)	(1,134)	(1.2)	—	—
Dividends Received Deduction	(620)	(.6)	(424)	(.5)	—	—
Exempt Interest Income	(504)	(.5)	(574)	(.6)	—	—
Other	(342)	(.3)	552	.6	(149)	(.1)
<b>Total Tax Provision Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle</b>	<b>36,403</b>	<b>34.5</b>	<b>34,833</b>	<b>38.4</b>	<b>53,022</b>	<b>49.0</b>
Extraordinary Item	—	—	—	—	(2,798)	49.2
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes	—	—	(5,226)	(5.8)	—	—
<b>Total Income Tax Provision</b>	<b>\$ 36,403</b>	<b>34.5%</b>	<b>\$ 29,607</b>	<b>32.6%</b>	<b>\$ 50,224</b>	<b>49.0%</b>
<b>Components of Income Tax Provision</b>						
Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle:						
Current						
Federal	\$ 26,102	71.7%	\$ 25,674	86.7%	\$ 41,517	82.7%
State	5,146	14.1	5,042	17.0	6,340	12.6
<b>Total Current</b>	<b>31,248</b>	<b>85.8</b>	<b>30,716</b>	<b>103.7</b>	<b>47,857</b>	<b>95.3</b>
Deferred						
Federal	4,315	11.9	3,563	12.1	4,582	9.1
State	840	2.3	554	1.9	583	1.2
<b>Total Deferred</b>	<b>5,155</b>	<b>14.2</b>	<b>4,117</b>	<b>14.0</b>	<b>5,165</b>	<b>10.3</b>
<b>Total Tax Provision Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle</b>	<b>36,403</b>	<b>100.0</b>	<b>34,833</b>	<b>117.7</b>	<b>53,022</b>	<b>105.6</b>
Extraordinary Item:						
Current	—	—	—	—	(2,798)	(5.6)
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes	—	—	(5,226)	(17.7)	—	—
<b>Total Tax Provision</b>	<b>\$ 36,403</b>	<b>100.0%</b>	<b>\$ 29,607</b>	<b>100.0%</b>	<b>\$ 50,224</b>	<b>100.0%</b>

Note 6 Continued

Under Statement of Financial Accounting Standards No. 96 (Note 1), the tax benefit resulting from a pass through in cash of ESOP dividends to employee-shareholders is reflected as a reduction of income tax expense (\$1.13 million in Fiscal 1988 and 1987) rather than as a direct credit to retained earnings (\$1.04 million in Fiscal 1986) as required under previous accounting standards.

Deferred income taxes arise principally from the temporary differences between financial reporting and income tax reporting of depreciation, store closing costs, and certain other accrued expenses.

The Company's consolidated federal income tax returns for Fiscal 1981 through Fiscal 1984 have been examined by the Internal Revenue Service, a routine occurrence for companies of Lowe's size. Collectively, the Internal Revenue Service's proposed adjustments, if settled as proposed, would not materially affect the Company's consolidated financial statements.

### Note 7, Employee Retirement Plans:

The Company's contribution to its Employee Stock Ownership Plan (ESOP) is approved annually by the Board of Directors. The Board authorized contributions totalling 13% of eligible compensation in Fiscal 1988, 1987 and 1986. In addition, the ESOP included a tax credit employee stock ownership plan which was fully funded by federal income tax credits of \$592 thousand in Fiscal 1986. This credit was legislatively repealed as of January 1, 1987.

On May 15, 1986, the Company issued 300,000 shares of common stock with an aggregate market value of \$11.6 million to the ESOP as part of the Company's Fiscal 1985 contribution (Note 8). During Fiscal 1987, the Company instituted a program of planned, open market purchases of shares of its own common stock. Between June 1987 and October 1987, as part of the Company's Fiscal 1986 contribution, 656,748 shares at a cost of \$17.6 million were purchased and simultaneously contributed to the ESOP. Purchases toward funding a portion of the Company's Fiscal 1987 ESOP contribution began in October 1987. As of January 31, 1988, 950,418 shares at a cost of \$17.0 million had been purchased and contributed to the ESOP. During Fiscal 1988, the Company made purchases of 188,747 shares at a cost of \$3.9 million to complete the funding of the Company Fiscal 1987 ESOP contribution. Purchases toward funding a portion of the Company's Fiscal 1988 ESOP contribution began in October 1988. As of January 31, 1989, 607,771 shares at a cost of \$14.0 million had been purchased and contributed to the ESOP. At January 31, 1989, the Employee Stock Ownership Trust held approximately 25.7% of the outstanding stock of the Company and was its largest shareholder.

The Board of Directors approves contributions to the Company's Employee Savings and Investment Plan each year based upon a matching formula applied to employee contributions. Company contributions to this plan for Fiscal years 1988, 1987 and 1986 were \$2.0, \$1.9 and \$1.7 million, respectively.

### Note 8, Shareholders' Equity:

Authorized shares of common stock were 120 million at January 31, 1989, 1988 and 1987. Transactions affecting the shareholders' equity section of the consolidated balance sheets are summarized as follows:

In Thousands	Shares Outstanding	Dollars in Thousands				Shareholders' Equity Total Equity
		Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	
<b>Balance January 31, 1986</b>	<b>37,082</b>	<b>\$18,541</b>	<b>\$ 82,219</b>	<b>\$306,613</b>		<b>\$407,373</b>
Sale of Stock	2,200	1,100	81,939	—		83,039
Shares Issued to ESOP	300	150	11,448	—		11,598
Net Earnings	—	—	—	52,219		52,219
Cash Dividends	—	—	—	(15,597)		(15,597)
Tax Benefit of ESOP Dividend Deduction	—	—	—	1,039		1,039
Stock Options Exercised (Note 9)	43	22	895	—		917
Shares Retired	(1)	(1)	(53)	—		(54)
<b>Balance January 31, 1987</b>	<b>39,624</b>	<b>19,812</b>	<b>176,448</b>	<b>344,274</b>		<b>540,534</b>
Net Earnings	—	—	—	61,180		61,180
Cash Dividends	—	—	—	(17,040)		(17,040)
Stock Options Exercised (Note 9)	6	3	126	—		129
Treasury Stock Purchases	(132)	—	—	—	\$ (2,367)	(2,367)
<b>Balance January 31, 1988</b>	<b>39,498</b>	<b>19,815</b>	<b>176,574</b>	<b>388,414</b>	<b>(2,367)</b>	<b>582,436</b>
Net Earnings	—	—	—	69,201		69,201
Cash Dividends	—	—	—	(17,281)		(17,281)
Stock Options Exercised (Note 9)	8	4	124	—		128
Treasury Stock Purchases	(2,367)	—	—	—	(47,633)	(47,633)
<b>Balance January 31, 1989</b>	<b>37,139</b>	<b>\$19,819</b>	<b>\$176,698</b>	<b>\$440,334</b>	<b>\$(50,000)</b>	<b>\$586,851</b>

*Note 8 Continued*

The Company has 5 million authorized shares of preferred stock (\$5 par), none of which have been issued. The preferred stock may be issued by the Board of Directors (without action by the stockholders) in one or more series, having such voting rights, dividend and liquidation preference and such conversion and other rights as may be designated by the Board of Directors at the time of issuance of the preferred shares.

In December 1987, the Board of Directors approved a \$50 million treasury stock program in which the Company's common stock was repurchased in the open market and held in the treasury for future needs of the Company. Treasury stock is reflected as such in the balance sheet. At January 31, 1988, 132,100 shares had been purchased at a cost of \$2.4 million or an average of \$17.91 per share. In Fiscal 1988, the Company purchased 2,366,850 shares at a cost of \$47.6 million or an average of \$20.12 per share. The total purchased under the program was 2,498,950 shares at a cost of \$50 million or an average of \$20.01 per share.

On September 9, 1988, the Board of Directors adopted a shareholder rights plan which provides for a dividend distribution of one preferred share purchase right on each outstanding share of common stock. Each purchase right will entitle shareholders to buy one unit of a newly authorized series of preferred stock. Each unit is intended to be the equivalent of one share of common stock. The purchase rights will be exercisable only if a person or group acquires or announces a tender offer for 20% or more of Lowe's common stock. The purchase rights do not apply to the person or group acquiring the stock. The purchase rights will expire on September 19, 1998.

**Note 9, Stock Options:**

During Fiscal 1985, shareholders approved a stock option plan under which incentive and non-qualified stock options may be granted to key employees of the Company; one million common shares were reserved for option purposes. Options granted are exercisable from the date of grant through expiration dates which range from 1991 through 1993.

Option information is summarized as follows:

	Shares In Thousands	Option price	
		Per share	Total
Dollars in Thousands, Except Per Share Data			
<b>Outstanding January 31, 1986</b>	<b>220</b>	<b>\$21.375 to \$23.375</b>	<b>\$4,696</b>
Cancelled or Expired	14	21.375	287
Exercised	43	21.375	917
<b>Outstanding January 31, 1987</b>	<b>163</b>	<b>21.375 to 23.375</b>	<b>3,492</b>
Granted*	223	16.25	3,780
Cancelled or Expired	20	16.25 to 21.375	518
Exercised	6	21.375	129
<b>Outstanding January 31, 1988</b>	<b>360</b>	<b>16.25 to 23.375</b>	<b>6,625</b>
Cancelled or Expired	12	16.25 to 21.375	—
Exercised	8	16.25	128
<b>Outstanding January 31, 1989</b>	<b>340</b>	<b>\$16.25 to \$23.375</b>	<b>\$6,497</b>

\*During Fiscal 1987, the Company made three grants with the aggregate number of shares granted under each of the second and third grants issued as substitutions being equal to and replacing each preceding grant adjusted for forfeitures and cancellations.

**Note 10, Leases:**

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

Fiscal Year	Operating Leases		Capital Leases		Total
	Real Estate	Equipment	Real Estate	Equipment	
Dollars in Thousands					
1989	\$ 3,924	\$ 2,079	\$ 1,066	\$ 5,595	\$ 12,663
1990	3,532	1,969	1,066	5,227	11,794
1991	3,256	1,934	1,066	4,001	10,257
1992	2,898	1,930	1,058	1,882	7,768
1993	2,330	1,487	1,029	436	5,282
Later years	5,190	312	21,780	291	27,573
<b>Total Minimum Lease Payments</b>	<b>\$21,130</b>	<b>\$9,711</b>	<b>\$27,065</b>	<b>\$17,432</b>	<b>\$75,337</b>
Total Minimum Capital Lease Payments			\$ 44,497		
Less Amount Representing Interest			20,932		
Present Value of Minimum Lease Payments			23,565		
Less Current Maturities			4,263		
<b>Present Value of Minimum Lease Payments, Less Current Maturities</b>			<b>\$19,302</b>		

Rental expenses under operating leases for real estate and equipment were \$7.2 million, \$6.6 million, and \$6.8 million in Fiscal 1988, 1987 and 1986, respectively.

### Note 11, Commitments, Contingencies and Litigation:

The Company had purchase commitments at January 31, 1989 of approximately \$28.0 million for land, buildings and construction of facilities, and \$4.7 million for equipment.

The Company is defendant in various lawsuits incurred in the normal course of business. There is no material litigation pending not covered by insurance.

### Note 12, Other Information:

The allowance for doubtful accounts, which is netted with accounts receivable in the consolidated balance sheets, is summarized as follows:

Years Ended January 31,	1989	1988	1987
Dollars in Thousands			
Allowance for Doubtful Accounts:			
Balance Beginning of Year	\$ 3,852	\$ 4,327	\$ 4,531
Additions Charged to Expenses	4,439	5,897	5,135
Deductions for Accounts Charged Off	(4,112)	(6,372)	(5,339)
<b>Balance End of Year</b>	<b>\$ 4,179</b>	<b>\$ 3,852</b>	<b>\$ 4,327</b>

Net interest expense is comprised of the following:

Years Ended January 31,	1989	1988	1987
Dollars in Thousands			
Long-Term Debt	\$ 18,936	\$ 18,634	\$ 19,691
Short-Term Debt	5,186	4,312	202
Amortization of Loan Costs	125	110	158
Short-Term Interest Income	(1,784)	(1,779)	(2,634)
Interest Capitalized	(1,470)	(1,803)	(3,669)
<b>Net Interest Expense</b>	<b>\$20,990</b>	<b>\$19,474</b>	<b>\$13,748</b>

Cash and cash equivalents are comprised of the following:

As of January 31,	1989	1988	1987
Dollars in Thousands			
Cash	\$ 3,757	\$ 13,889	\$ 6,525
Short-Term Investments	56,500	30,000	43,488
<b>Total</b>	<b>\$60,257</b>	<b>\$43,889</b>	<b>\$50,013</b>

Supplemental disclosures of cash flow information:

Years Ended January 31,	1989	1988	1987
Dollars in Thousands			
Cash Paid for Interest (Net of Amount Capitalized)	\$ 22,689	\$ 20,953	\$ 17,543
Cash Paid for Income Taxes	32,147	35,504	41,461
Fixed Assets Acquired Under Capital Leases	62	10,231	8,151
Stock Issued to ESOP (Note 7)	17,863	34,600	11,598

Advertising expenses were \$37.0, \$39.1, and \$34.5 million for Fiscal 1988, 1987 and 1986, respectively.

### Note 13, Closed Stores:

On the Consolidated Balance Sheets the Company has elected to classify closed stores' land and buildings under the "other assets" caption at their net estimated realizable value. During Fiscal 1988, there were 6 store closings; expenses associated with these closings were considered normal operating expenses.

In December 1987, the Company closed 16 non-profitable stores: 13 in Texas and 1 each in Oklahoma, Georgia and South Carolina. Closing expenses of \$9.8 million, for these 16 stores is shown separately in the 1987 Consolidated Statement of Current and Retained Earnings, and includes accruals for all incurred and anticipated expenses directly related to these closings. Of the 16 stores, 13 were owned and 3 were leased.

The Company closed an additional 5 stores in 1987 prior to December; 3 stores were closed in Fiscal 1986. The expenses associated with these closings were considered normal operating expenses.



## Selected Financial Data

Lowe's Companies, Inc. and Subsidiary Companies  
Dollars in Thousands, Except Per Share Data

Fiscal Years End on January 31 of Following Year

	1988	1987	1986	1985	1984
<b>Selected Income Statement Data:</b>					
Net Sales	\$2,516,879	\$2,442,177	\$2,283,480	\$2,072,569	\$1,688,738
Earnings Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	69,201	55,954	55,104	59,714	61,443
Extraordinary Item:					
Debt Retirement Net of Taxes of \$2,798	—	—	(2,885)	—	—
Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes	—	5,226	—	—	—
Net Earnings	69,201	61,180	52,219	59,714	61,443
Earnings Per Common Share:					
Before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	1.83	1.41	1.41	1.64	1.70
After Extraordinary Item and Cumulative Effect on Prior Years of a Change in Accounting for Income Taxes	\$ 1.83	\$ 1.54	\$ 1.34	\$ 1.64	\$ 1.70

### Selected Balance Sheet Data:

Total Assets	\$1,085,797	\$1,027,329	\$ 969,219	\$ 856,191	\$ 634,108
Long-Term Debt, Including Current Maturities	\$ 202,447	\$ 197,893	\$ 162,879	\$ 192,582	\$ 99,571

Three Months Ended

	January 31	October 31	July 31	April 30
<b>Selected Quarterly Data<sup>1</sup></b>				
<b>Fiscal 1988</b>				
Net Sales	\$569,552	\$652,122	\$704,606	\$590,599
Gross Margin	137,456	152,635	169,657	140,698
Net Earnings	11,794	15,893	26,428	15,086
Earnings Per Share	.32	.43	.70	.39
<b>Fiscal 1987</b>				
Net Sales	502,427	645,558	725,057	569,135
Gross Margin	121,612	152,876	171,398	138,051
Earnings Before Cumulative Effect of a Change in Accounting Principle	648	16,932	24,528	13,846
Cumulative Effect of a Change in Accounting Principle	—	—	—	5,226
Net Earnings	648	16,932	24,528	19,072
Earnings Per Share Before Cumulative Effect of a Change in Accounting Principle	.02	.43	.62	.35
Earnings Per Share After Cumulative Effect of a Change in Accounting Principle	.02	.43	.62	.48
<b>Fiscal 1986</b>				
Net Sales	497,368	594,275	657,845	533,992
Gross Margin	124,849	144,756	159,752	129,753
Earnings Before Extraordinary Item	10,053	12,416	21,251	11,384
Net Earnings	7,168	12,416	21,251	11,384
Earnings Per Share Before Extraordinary Item	.25	.31	.54	.31
Earnings Per Share	\$ .18	\$ .31	\$ .54	\$ .31

#### <sup>1</sup>LIFO Adjustment

Fiscal 1988 — The total LIFO effect for the year was a charge of \$5.1 million. The company had previously charged \$4.7 million against earnings through the first nine months, resulting in a fourth quarter charge of \$4 million.

Fiscal 1987 — The total LIFO effect for the year was a charge of \$3.8 million. The company had previously charged \$2.6 million against earnings through the first nine months, resulting in a fourth quarter charge of \$1.2 million.

Fiscal 1986 — The total LIFO effect for the year was a credit of \$3.0 million. The company had previously charged \$6 million against earnings through the first nine months, resulting in a fourth quarter credit of \$3.6 million.

#### Plywood Antitrust Litigation

In fiscal 1986, the fourth quarter included \$4.9 million income (before income taxes) from the settlement of a class action suit against several plywood manufacturers.

#### Property Tax Adjustment

In fiscal 1986 the company obtained permission from the Internal Revenue Service to accelerate its property tax expenses, without increasing actual property tax payments. This afforded the company an additional deduction in fiscal 1986 of \$2.5 million, of which \$1.4 million was charged to the fourth quarter and \$1.1 million to the third quarter. This created positive cash flow as a result of the additional tax deduction at the 46% federal income tax rate, which was particularly timely in view of the reduced 1987 tax rates applicable under the Tax Reform Act of 1986.

#### Store Closings

In fiscal 1987, the fourth quarter includes expenses incurred of \$9.6 million related to the closing of 16 stores in December 1987 as discussed in note 13 to the consolidated financial statements.

# Profitability Model

Fiscal 1988 Figures\*

Sales, Profit, Assets, Equity			Beginning	Ending	Beginning	Ending
Dollars in Millions			Assets	Assets	Shareholders' Equity	Shareholders' Equity
Organization (Stock Symbol)	Sales	Profit				
<b>Lowe's (LOW)</b>	<b>\$2,516.9</b>	<b>\$ 69.2</b>	<b>\$1,027.3</b>	<b>\$1,085.8</b>	<b>\$ 582.4</b>	<b>\$ 586.9</b>
Dayton Hudson (DH)	12,204.0	287.0	6,075.5	6,523.0	1,986.0	1,861.0
Hechinger (HECHA)	1,019.4	48.8	579.4	680.5	320.0	366.3
Home Depot (HD)	1,999.5	76.8	528.3	699.2	320.6	382.9
Wal-Mart (WMT)	\$20,649.0	\$837.2	\$ 5,131.8	\$ 6,283.1	\$ 2,257.3	\$ 3,007.9

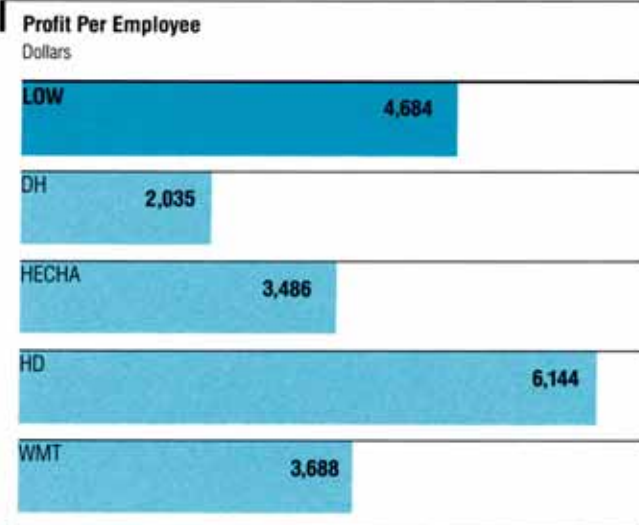
ROE Calculation	Asset <sup>1</sup> Turnover	×	Return <sup>2</sup> on Sales	=	Return <sup>3</sup> on Assets	×	Leverage <sup>4</sup> Factor	=	Return <sup>5</sup> on Equity
<b>Lowe's (LOW)</b>	<b>2.45</b>		<b>2.75%</b>		<b>6.74%</b>		<b>1.76</b>		<b>11.88%</b>
Dayton Hudson (DH)	2.01		2.35		4.72		3.06		14.45
Hechinger (HECHA)	1.76		4.79		8.42		1.81		15.25
Home Depot (HD)	3.78		3.84		14.54		1.65		23.96
Wal-Mart (WMT)	4.02		4.05%		16.31%		2.27		37.09%

Employees	Number <sup>6</sup> of Employees	Sales <sup>7</sup> Per Employee	Profit <sup>8</sup> Per Employee
Dollars			
<b>Lowe's (LOW)</b>	<b>14,774</b>	<b>\$170,360</b>	<b>\$4,684</b>
Dayton Hudson (DH)	141,000	86,553	2,035
Hechinger (HECHA)	14,000e	72,814	3,486
Home Depot (HD)	12,500	159,960	6,144
Wal-Mart (WMT)	227,000	\$ 90,965	\$ 3,688

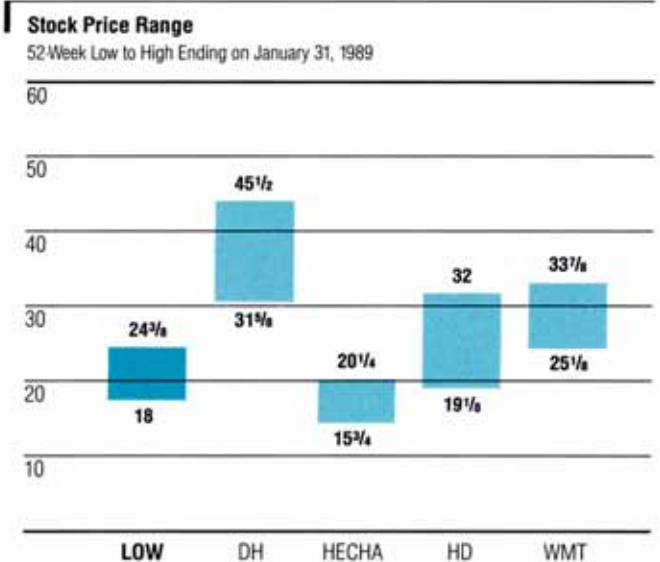
\*LOW year ended 1/31; DH ended 1/28; HD ended 1/29; HECHA ended 1/28, and WMT ended 1/31.  
<sup>1</sup>Total sales divided by beginning assets  
<sup>2</sup>Total profit divided by total sales

<sup>3</sup>Total profit divided by beginning assets  
<sup>4</sup>Beginning assets divided by beginning equity  
<sup>5</sup>Total profit divided by beginning equity

<sup>6</sup>All year-end  
<sup>7</sup>Total sales divided by number of employees  
<sup>8</sup>Total profit divided by number of employees



**LOW** Lowe's      HECHA Hechinger      WMT Wal-Mart  
 DH Dayton Hudson      HD Home Depot



# Stock Performance

## Lowe's Quarterly Stock Price Range and Cash Dividend Payment

	Fiscal 1988			Fiscal 1987			Fiscal 1986		
	High	Low	Dividend	High	Low	Dividend	High	Low	Dividend
1st Quarter	\$21	\$18	\$.11	\$32 1/2	\$25 1/8	\$.10	\$40 7/8	\$28 1/4	\$.10
2nd Quarter	23 1/4	19	.11	28 1/2	23 5/8	.11	40 7/8	29 3/8	.10
3rd Quarter	24 3/8	18 3/4	.12	29 1/8	16 7/8	.11	29 1/8	23 1/8	.10
4th Quarter	\$24	\$19 1/4	\$.12	\$21 5/8	\$15 1/4	\$.11	\$30	\$25 1/4	\$.10

Source: Wall Street Journal

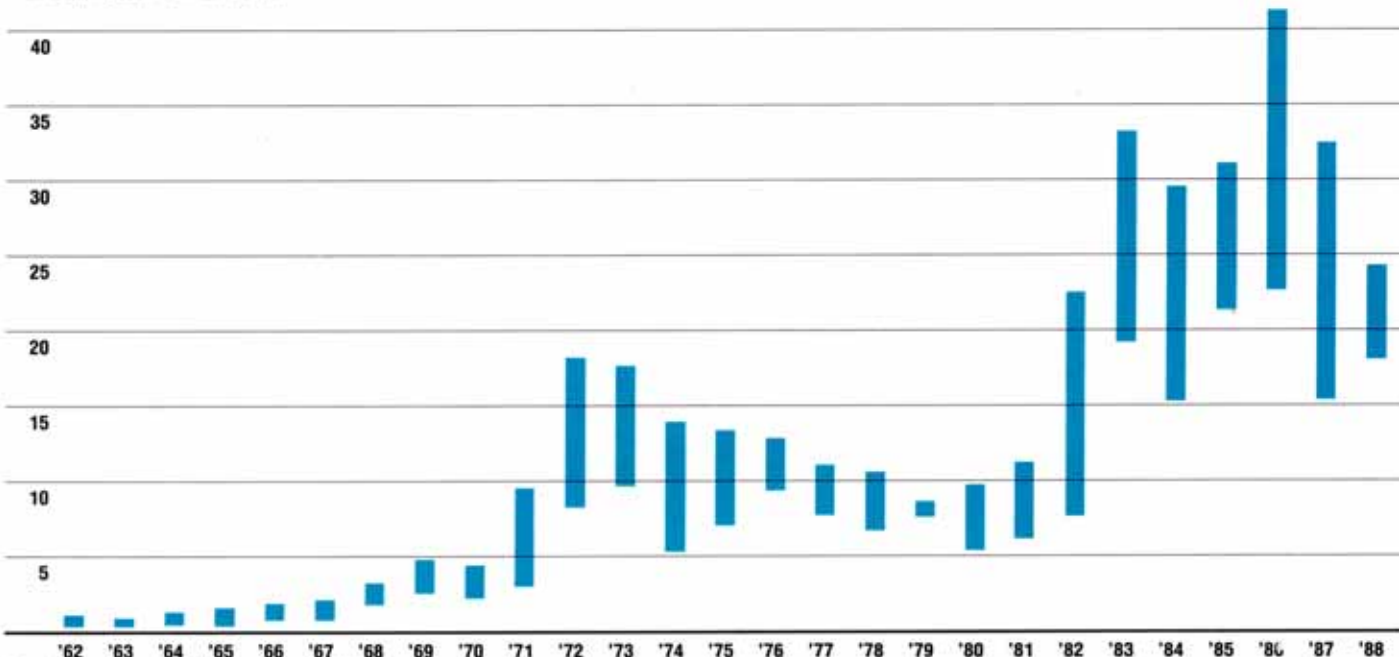
## Monthly Stock Price and Trading Volume

	Fiscal 1988			Fiscal 1987		
	High	Low	Shares Traded	High	Low	Shares Traded
February	\$20 1/4	\$18	1,626,300	\$32 1/4	\$27 1/4	2,426,700
March	21	18 7/8	1,465,200	32 1/2	30 3/4	2,171,000
April	21	19	1,330,300	32 1/8	25 1/8	2,674,300
May	20 3/4	19	1,418,200	27 5/8	23 5/8	2,550,700
June	23 1/4	19 3/4	1,701,500	28 1/2	26 1/8	2,431,400
July	22 1/8	20	990,900	27 5/8	25 7/8	2,148,100
August	22	18 3/4	1,199,700	29 1/8	26 3/4	2,620,100
September	21 3/8	19 3/8	1,058,300	27 3/8	24 5/8	1,908,800
October	24 3/8	20 3/8	1,021,600	25 1/2	16 7/8	3,641,800
November	24	20 5/8	2,004,100	21 5/8	16 7/8	1,715,300
December	21 3/8	19 1/4	1,196,400	17 3/4	15 1/4	2,711,200
January	\$23	\$20 3/4	1,061,400	\$19 1/4	\$16 7/8	2,514,600

Source: Wall Street Journal

## High-Low Stock Price\*

Dollars; Adjusted for All Stock Splits



\*Based on fiscal years; prior to '73, year-end was July 31.

Sources: Monthly Market Statistics Report, New York Stock Exchange, The Wall Street Journal

# Quarterly Review of Performance

## Earnings Statement

Dollars in Thousands

Three Months Ended	Fiscal 1988				Fiscal 1987			
	1/31/89	10/31/88	7/31/88	4/30/88	1/31/88	10/31/87	7/31/87	4/30/87
<b>Net Sales</b>	<b>\$569,552</b>	<b>\$652,122</b>	<b>\$704,606</b>	<b>\$590,599</b>	<b>\$502,427</b>	<b>\$645,558</b>	<b>\$725,057</b>	<b>\$569,135</b>
FIFO Gross Margin	137,810	153,835	171,600	142,259	122,831	153,953	172,431	138,551
LIFO Credit (Charge)	(354)	(1,200)	(1,943)	(1,561)	(1,219)	(1,077)	(1,033)	(500)
<b>LIFO Gross Margin</b>	<b>137,456</b>	<b>152,635</b>	<b>169,657</b>	<b>140,698</b>	<b>121,612</b>	<b>152,876</b>	<b>171,398</b>	<b>138,051</b>
Expenses:								
S, G & A	99,769	106,211	106,999	97,081	91,994	104,791	110,400	96,487
Depreciation	10,961	10,260	9,992	9,971	10,151	9,964	9,523	8,908
Employee Retirement Plans	6,316	5,663	5,505	5,124	3,411	5,407	6,493	6,389
Interest (Note 12)	4,930	5,678	5,531	4,851	5,246	5,240	5,185	3,803
Store Closings (Note 13)	—	—	—	—	9,758	—	—	—
<b>Total Expenses</b>	<b>121,976</b>	<b>127,812</b>	<b>128,027</b>	<b>117,027</b>	<b>120,560</b>	<b>125,402</b>	<b>131,601</b>	<b>115,587</b>
Pre-Tax Earnings*	15,480	24,823	41,630	23,671	1,052	27,474	39,797	22,464
Income Tax Provision*	3,686	8,930	15,202	8,585	404	10,542	15,269	8,618
<b>Net Earnings*</b>	<b>11,794</b>	<b>15,893</b>	<b>26,428</b>	<b>15,086</b>	<b>648</b>	<b>16,932</b>	<b>24,528</b>	<b>13,846</b>
<b>Earnings Per Share*</b>	<b>\$ .32</b>	<b>\$ .43</b>	<b>\$ .70</b>	<b>\$ .39</b>	<b>\$ .02</b>	<b>\$ .43</b>	<b>\$ .62</b>	<b>\$ .35</b>

## Earnings Statement Changes

Changes From Same Quarter Previous Year, to Nearest Tenth Percent

Three Months Ended	Fiscal 1988				Fiscal 1987			
	1/31/89	10/31/88	7/31/88	4/30/88	1/31/88	10/31/87	7/31/87	4/30/87
<b>Net Sales</b>	<b>13.4%</b>	<b>1.0%</b>	<b>(2.8)%</b>	<b>3.8%</b>	<b>1.0%</b>	<b>8.6%</b>	<b>10.2%</b>	<b>6.6%</b>
FIFO Gross Margin	12.2	(.1)	(.5)	2.7	1.3	6.4	7.7	6.5
LIFO Credit (Charge)**	(71.0)	11.4	88.1	212.2	133.6	NM	179.2	70.1
<b>LIFO Gross Margin</b>	<b>13.0</b>	<b>(.2)</b>	<b>(1.0)</b>	<b>1.9</b>	<b>(2.6)</b>	<b>5.6</b>	<b>7.3</b>	<b>6.4</b>
Expenses:								
S, G & A	8.5	1.4	(3.1)	.6	4.6	3.5	8.5	5.1
Depreciation	8.0	3.0	4.9	11.9	14.7	26.2	32.2	36.6
Employee Retirement Plans	85.2	4.7	(15.2)	(19.8)	(32.7)	(6.2)	(3.4)	(.2)
Interest (Note 12)	(6.0)	8.4	6.7	27.6	41.3	54.3	66.5	7.9
Store Closings (Note 13)	(100.0)	—	—	—	NM	—	—	—
<b>Total Expenses</b>	<b>1.2</b>	<b>1.9</b>	<b>(2.7)</b>	<b>1.2</b>	<b>14.2</b>	<b>6.0</b>	<b>10.8</b>	<b>6.8</b>
Pre-Tax Earnings*	1371.5	(9.6)	4.6	5.4	(94.5)	4.0	(2.8)	4.6
Income Tax Provision*	812.4	(15.3)	(.4)	(.4)	(95.6)	(24.8)	(22.5)	(14.7)
<b>Net Earnings*</b>	<b>1720.1%</b>	<b>(6.1)%</b>	<b>7.7%</b>	<b>9.0%</b>	<b>(93.6)%</b>	<b>36.4%</b>	<b>15.4%</b>	<b>21.6%</b>

\*\*Percentage change denotes increase (decrease) in expenses.

NM: not meaningful

## Earnings Statement Percentages

Percent of Sales to Nearest Hundredth; Income Tax is Percent of Pre-Tax Earnings

Three Months Ended	Fiscal 1988				Fiscal 1987			
	1/31/89	10/31/88	7/31/88	4/30/88	1/31/88	10/31/87	7/31/87	4/30/87
<b>Net Sales</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
FIFO Gross Margin	24.19	23.59	24.36	24.08	24.44	23.85	23.78	24.35
LIFO Credit (Charge)	(.06)	(.18)	(.28)	(.26)	(.24)	(.17)	(.14)	(.09)
<b>LIFO Gross Margin</b>	<b>24.13</b>	<b>23.41</b>	<b>24.08</b>	<b>23.82</b>	<b>24.20</b>	<b>23.68</b>	<b>23.64</b>	<b>24.26</b>
Expenses:								
S, G & A	17.52	16.29	15.19	16.44	18.31	16.23	15.22	16.95
Depreciation	1.92	1.57	1.42	1.69	2.02	1.54	1.31	1.57
Employee Retirement Plans	1.11	.87	.78	.87	.68	.84	.90	1.12
Interest (Note 12)	.86	.87	.78	.81	1.04	.81	.72	.67
Store Closings (Note 13)	—	—	—	—	1.94	—	—	—
<b>Total Expenses</b>	<b>21.41</b>	<b>19.60</b>	<b>18.17</b>	<b>19.81</b>	<b>23.99</b>	<b>19.42</b>	<b>18.15</b>	<b>20.31</b>
Pre-Tax Earnings*	2.72	3.81	5.91	4.01	.21	4.26	5.49	3.95
Income Tax Provision*	23.81	35.97	36.52	36.27	38.40	38.37	38.37	38.36
<b>Net Earnings*</b>	<b>2.07%</b>	<b>2.44%</b>	<b>3.75%</b>	<b>2.55%</b>	<b>.13%</b>	<b>2.62%</b>	<b>3.38%</b>	<b>2.43%</b>

\*Before cumulative effect of a change in accounting principle in fiscal 1987.

### Customer Sales Profile

Dollars in Millions, Rounded Totals

	Change	Fiscal 1988		Fiscal 1987	
		Sales	% Total	Sales	% Total
<b>1st Quarter</b>					
HC <sup>1</sup>	+ 8%	\$ 254.9	43%	\$ 236.9	42%
CD <sup>2</sup>	+ 12	89.5	15	80.2	14
BC <sup>3</sup>	- 2	246.2	42	252.0	44
<b>Totals</b>	<b>+ 4</b>	<b>590.6</b>	<b>100</b>	<b>569.1</b>	<b>100</b>
<b>2nd Quarter</b>					
HC	+ 4	317.9	45	304.3	42
CD	- 4	107.7	15	112.0	15
BC	- 10	279.0	40	308.8	43
<b>Totals</b>	<b>- 3</b>	<b>704.6</b>	<b>100</b>	<b>725.1</b>	<b>100</b>
<b>3rd Quarter</b>					
HC	+ 7	299.4	46	280.9	44
CD	+ 10	81.0	12	73.8	11
BC	- 7	271.7	42	290.9	45
<b>Totals</b>	<b>+ 1</b>	<b>652.1</b>	<b>100</b>	<b>645.6</b>	<b>100</b>
<b>4th Quarter</b>					
HC	+ 20	245.9	43	204.8	41
CD	+ 7	88.6	16	82.5	16
BC	+ 9	235.1	41	215.1	43
<b>Totals</b>	<b>+ 13%</b>	<b>\$569.6</b>	<b>100%</b>	<b>\$502.4</b>	<b>100%</b>

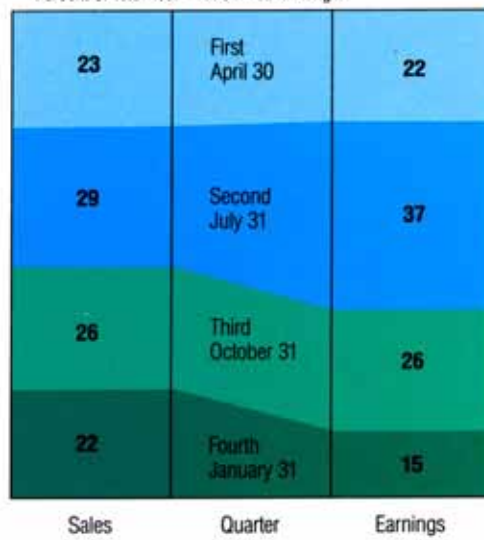
<sup>1</sup> HC: sales to home center customers (cash or non-recourse credit).

<sup>2</sup> CD: sales to consumer durables customers (cash or non-recourse credit).

<sup>3</sup> BC: sales to building contractors (Lowe's-extended credit).

### 1983-1988 Sales and Earnings

Percent of Total Year — A Six-Year Average



### Store Sales Profile

Dollars in Millions, Rounded Totals

	Fiscal 1988					Fiscal 1987				
	Change	Sales	% Total	Stores	Per Store Average	Change	Sales	% Total	Stores	Per Store Average
<b>1st Quarter</b>										
<b>Comparable Stores<sup>1</sup></b>	<b>+ 4%</b>	<b>\$571.4</b>	<b>97%</b>	<b>285</b>	<b>\$2.0</b>	<b>+ 1%</b>	<b>\$538.6</b>	<b>95%</b>	<b>286</b>	<b>\$1.9</b>
New Stores <sup>2</sup>		19.2	3	11	1.7		30.5	5	20	1.5
<b>Total Stores Reporting<sup>3</sup></b>	<b>+ 4</b>	<b>590.6</b>	<b>100</b>	<b>296</b>	<b>2.0</b>	<b>+ 7</b>	<b>569.1</b>	<b>100</b>	<b>306</b>	<b>1.9</b>
Less Closed Stores <sup>4</sup>							(20.7)		(21)	
<b>Comparable Stores<sup>5</sup></b>							<b>548.4</b>		<b>285</b>	<b>1.9</b>
<b>2nd Quarter</b>										
<b>Comparable Stores</b>	<b>- 1</b>	<b>692.7</b>	<b>98</b>	<b>291</b>	<b>2.4</b>	<b>+ 4</b>	<b>683.7</b>	<b>94</b>	<b>289</b>	<b>2.4</b>
New Stores		11.9	2	8	1.5		41.4	6	23	1.8
<b>Total Stores Reporting</b>	<b>- 3</b>	<b>704.6</b>	<b>100</b>	<b>299</b>	<b>2.4</b>	<b>+ 10</b>	<b>725.1</b>	<b>100</b>	<b>312</b>	<b>2.3</b>
Less Closed Stores							(22.6)		(21)	
<b>Comparable Stores</b>							<b>702.5</b>		<b>291</b>	<b>2.4</b>
<b>3rd Quarter</b>										
<b>Comparable Stores</b>	<b>+ 2</b>	<b>639.2</b>	<b>98</b>	<b>292</b>	<b>2.2</b>	<b>+ 3</b>	<b>611.2</b>	<b>95</b>	<b>293</b>	<b>2.1</b>
New Stores		12.9	2	7	1.8		34.3	5	20	1.7
<b>Total Stores Reporting</b>	<b>+ 1</b>	<b>652.1</b>	<b>100</b>	<b>299</b>	<b>2.2</b>	<b>+ 9</b>	<b>645.5</b>	<b>100</b>	<b>313</b>	<b>2.1</b>
Less Closed Stores							(18.7)		(21)	
<b>Comparable Stores</b>							<b>626.8</b>		<b>292</b>	<b>2.1</b>
<b>4th Quarter</b>										
<b>Comparable Stores</b>	<b>+ 14</b>	<b>559.4</b>	<b>98</b>	<b>291</b>	<b>1.9</b>	<b>- 3</b>	<b>480.3</b>	<b>96</b>	<b>295</b>	<b>1.6</b>
New Stores		10.2	2	7	1.5		22.2	4	16	1.4
<b>Total Stores Reporting</b>	<b>+ 13%</b>	<b>\$569.6</b>	<b>100%</b>	<b>298</b>	<b>\$1.9</b>	<b>+ 1%</b>	<b>502.5</b>	<b>100%</b>	<b>311</b>	<b>1.6</b>
Less Closed Stores							(10.9)		(20)	
<b>Comparable Stores</b>							<b>\$491.6</b>		<b>291</b>	<b>\$1.7</b>

<sup>1</sup> Comparable stores: stores which have been open for one year or more at the end of the quarter.

<sup>2</sup> New stores: stores which have been open for less than a year at the end of the quarter.

<sup>3</sup> Total stores reporting: total stores reporting sales for the period.

<sup>4</sup> Closed stores: stores closed after the end of the period. Sales of closed stores must be subtracted

in order to make the sales base comparable.

<sup>5</sup> Comparable stores (future): stores still open one year after the reporting period, i.e., those that are "comparable" to the next year's comparable stores.

## Board of Directors



Left to right, seated: William H. McElwee, Sr., Leonard G. Herring, Robert L. Strickland, Petro Kulynych, Gordon E. Cadwgan; standing: Jack C. Shewmaker, John M. Belk, Russell B. Long, Robert G. Schwartz, William A. Andres.

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### William A. Andres

Director since 1986, age 62. Chairman of Committee of Outside Directors, Member of Audit Committee and Compensation/Stock Option Committee of the Company. Previously Chairman of the Board (1976–1985), Chairman of Executive Committee (1976–1985) of Dayton Hudson Corporation (Retail Chain), Minneapolis, Minn. (Mr. Andres retired in September, 1985.) Other directorships: Jostens, Inc., Minneapolis, Minn., since 1985; Exxon Corporation, New York, N.Y., since 1981; Scott Paper Company, Philadelphia, Penn., since 1983; The St. Paul Companies, St. Paul, Minn., since 1977; International Multifoods, Inc., Minneapolis, Minn., since 1978; Hannaford Bros., Scarborough, Maine, since 1986.

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### John M. Belk

Director since 1986, age 69. Member of Audit Committee, Compensation/Stock Option Committee and Committee of Outside Directors of the Company. Chairman of the Board, Belk Stores Services, Inc. (Retail Department Stores), Charlotte, N.C., since 1980. Other directorships: Wachovia Corporation, Winston-Salem, N.C., since 1958; First Wachovia Corporation, Winston-Salem, N.C., since 1985; Coca-Cola Bottling Company Consolidated, Charlotte, N.C., since 1972; Southern Radio Corp., Charlotte, N.C., since 1963; Quantum Chemical Corp., New York, N.Y., since 1983; Southern Bell, Atlanta, Ga., since 1985. Other memberships: American Management Association; World Business Council; The Conference Board; American Retail Federation; National Retail Merchants Association; Board of Trustees, Davidson College; Board of Visitors, Johnson C. Smith University.

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### Gordon E. Cadwgan

Director since 1961, age 75. Chairman of Audit Committee, Member of Compensation/Stock Option Committee, Executive Committee and Committee of Outside Directors of the Company. Trustee and Financial Consultant, affiliated with Tucker, Anthony & R.L. Day, Inc., Boston, Mass., since 1979. Other directorships: Third Century Fund, Inc., Providence, R.I., since 1981. Other memberships: Executive Committee, Third Century Fund, Inc. Other: Fellow Emeritus, Brown University.

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## **Leonard G. Herring**

Director since 1956, age 61. President and Chief Executive Officer since 1978, Member of Executive Committee and Government/Legal Affairs Committee of the Company. Other directorships: First Union Corporation, Charlotte, N.C., since 1986; First Brands Corporation, Danbury, Conn., since 1987; Northwestern Financial Corporation, North Wilkesboro, N.C., 1969–1985. Other memberships: North Carolina Business Council of Management and Development, Inc.; Executive Committee, Hardware Home Improvement Industry Council, The City of Hope National Medical Center. Other: Trustee, Pfeiffer College.

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## **Petro Kulynych**

Director since 1952, age 67. Member of Compensation/Stock Option Committee and Executive Committee of the Company, having previously served as Managing Director (1978–1983). (Mr. Kulynych retired in December, 1983.) Other directorships: North Wilkesboro Federal Savings & Loan Association, North Wilkesboro, N.C., 1974–1988; Local Board, Wachovia Bank & Trust Co., N.A., North Wilkesboro, N.C., since 1988; North Carolina Council on Economic Education; Carolina Motor Club, Inc. Other memberships: Medical Center Board of Visitors, Bowman Gray School of Medicine of Wake Forest University and North Carolina Baptist Hospital, Inc. Other: Trustee, Wake Forest University.

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## **Russell B. Long**

Director since 1987, age 70. Member of Compensation/Stock Option Committee, Committee of Outside Directors and Government/Legal Affairs Committee of the Company. Partner, Long Law Firm (Attorneys-at-Law), Washington, D.C., since January, 1988; previously Partner, Finley, Kumble, Wagner, Heine, Underberg, Manley, Myerson & Casey (Attorneys-at-Law), Washington, D.C., during 1987. Other directorships: Metropolitan Life Insurance Company, New York, N.Y., since 1987; The New York Stock Exchange, Inc., New York, N.Y., since 1987; Louisiana Land & Exploration Co., New Orleans, La., since 1987. Other memberships: Board of Advisors, Kelso and Company. Other: United States Senator, 1948–1987; Member, Senate Finance Committee, 1952–1987; Member, Joint Committee of Taxation, 1961–1987; Member, Senate Committee on Commerce, Science, and Transportation, 1966–1986; Member, Senate Select Committee on Ethics, 1985–1986; Member, Senate Finance Subcommittees on Health, Pensions and Investment Policy, and Social Security and Income Maintenance Programs, 1985–1986.

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## **William H. McElwee, Sr.**

Director since 1961, age 81. Managing Director and General Counsel since 1980 and Chairman of Government/Legal Affairs Committee of the Company. Partner, McElwee, McElwee, Cannon & Warden (Attorneys-at-Law), North Wilkesboro, N.C. Other memberships: Member Emeritus, North Carolina Board of Law Examiners; Local Board, North Carolina National Bank; Legal Advisors of the Southeastern Legal Foundation, Inc. Other: Trustee, Davis Hospital Endowment Fund; Fellow, American College of Trial Lawyers.

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## **Robert G. Schwartz**

Director since 1973, age 61. Chairman of Compensation/Stock Option Committee, Member of Audit Committee and Committee of Outside Directors of the Company. Chairman of the Board of Metropolitan Life Insurance Company, New York, N.Y., since 1983 and Chairman of the Investment Committee since 1980. Other directorships: Potlatch Corporation, San Francisco, Cal., since 1973; State Street Research and Management Company, Boston, Mass., since 1983; Communications Satellite Corporation, Washington, D.C., since 1986; Mobil Corporation, New York, N.Y., since 1987; Greater New York Councils Boy Scouts of America. Other: Trustee, Committee for Economic Development.

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## **Jack C. Shewmaker**

Director since 1985, age 51. Member of Compensation/Stock Option Committee, Executive Committee and Committee of Outside Directors of the Company. Director of Wal-Mart Stores, Inc. (Discount Retail Chain), Bentonville, Ark., since 1977, having previously served as Vice Chairman of the Board (1984–1988), Chief Financial Officer (1984–1988), President and Chief Operating Officer (1978–1984) of that company. (Mr. Shewmaker retired in February, 1988.) Other directorships: Northern Automotive, Phoenix, Ariz., since 1988; Vons Companies, Inc., El Monte, Cal., since 1988. Other memberships: Board of Trustees, Drury College.

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## **Robert L. Strickland**

Director since 1961, age 58. Chairman of the Board since 1978, Chairman of Executive Committee and Member of Government/Legal Affairs Committee of the Company. Other directorships: Summit Communications, Atlanta, Ga., since 1987; Do-It-Yourself Research Institute; The Employee Stock Ownership Assn.; Council of Better Business Bureaus, Inc.; The Committee of Publicly Owned Companies. Other memberships: Home Center Leadership Council; Board of Trustees, The University of North Carolina at Chapel Hill. Other: President, Hardware Home Improvement Industry Council, The City of Hope National Medical Center.

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# Lowe's Leadership

## Executive Management

Robert L. Strickland, Chairman of the Board  
Leonard G. Herring, President and Chief Executive Officer  
William H. McElwee, Sr., Corporate Counsel  
Wendell R. Emerine, Executive Vice President/Store Operations/Merchandising  
Dwight E. Pardue, Sr., Senior Executive Vice President — Real Estate  
Harry B. Underwood, II, Senior Vice President and Treasurer

## Other Corporate Officers

Richard D. Elledge, Vice President/Secretary  
Arnold N. Lakey, Vice President — Credit Management  
W. Nathan Mitchell, Assistant Secretary, Director/Trades Payable  
Kenneth A. Neal, Assistant Treasurer  
William F. Reins, Assistant Treasurer, Director/General Accounting  
Leslie G. Shell, III, Contoller  
John W. Vining, Jr., Vice President — Administration  
William C. Warden, Jr., Assistant Secretary

## Regional Vice Presidents

Charles E. Taylor — South Central Region  
Robert L. Tillman — Southeast Region  
William L. White — Northeast Region

## Merchandising Vice Presidents

Robert Cannon — Consumer Durables  
Jerry Edwards — Specialty Building Materials  
Vaughn Hayes — Store Merchandising  
Lee Herring — Millwork/Plywood  
Kenneth Moore — Structural Lumber  
Greg Wessling — Building Materials/Farm Products

## Departmental Vice Presidents

Gregory Bridgeford — Corporate Development  
Ralph Buchan — Advertising  
Alex Busick — Advertising/Store Budgeting  
Don Davis — Retail Sales  
I.W. Davis — Real Estate  
Frank W. Dooley — Corporate Information Services  
John Eikenberry — Internal Audit  
Richard D. Griffin — Senior Vice President — Sales/Marketing  
Jim Lyall — Design Services  
W. Cliff Oxford — Corporate Relations  
James Parks — Human Resources  
Ron Perry — Distribution  
Ben Phillips — Contractor Sales  
H.C. Poythress — Sterling Advertising  
David E. Shelton — Training/Pricing



# Investor Information

## Dividend Declaration Dates

Usually the middle of April,  
July, October and January.

## Dividend Payment Dates

Usually the last of April, July, October and January.

## Dividend Disbursing Agent

Wachovia Bank & Trust Co., NA  
Box 3001  
Winston-Salem, NC 27102-3001  
Information contact:  
Bill Kepley  
(919) 770-6190

## Dividend Reinvesting Agent

Wachovia Bank & Trust Co., NA  
Box 3001  
Winston-Salem, NC 27102-3001  
Information contact:  
Larry E. Watkins  
(919) 770-4075

## Dividend Policy

Lowe's has paid a cash dividend each quarter since becoming a public company in 1961.

## Lowe's Telephone

(919) 651-4000

## Lowe's Fax

(919) 651-4766

## Lowe's Telex

510-922-5737

## Lowe's Mailing Address

Box 1111  
North Wilkesboro, NC 28656-0001

## Lowe's Street Address

State Highway 268 East (Elkin Highway)  
North Wilkesboro, NC 28659-1111

## Shareholder Services

Shareholders' and security analysts' inquiries should be directed to:

W. Cliff Oxford, Vice-President, Corporate Relations  
(919) 651-4631

or Clarissa S. Felts, Manager, Investor Research  
(919) 651-4254

## Annual Meeting Date

June 9, 1989 at 10:00 a.m.  
Lowe's Corporate Offices  
North Wilkesboro, NC

## Stock Transfer Agent & Registrar

Wachovia Bank & Trust Co., NA  
Box 3001  
Winston-Salem, NC 27102-3001  
Information contact:  
Ginger Lakey  
(919) 770-5822

## Lowe's Common Stock

Ticker symbol: LOW  
Listed:  
New York Stock Exchange  
20 Broad Street  
New York, NY 10005

Pacific Stock Exchange  
301 Pine Street  
San Francisco, CA 94104

The Stock Exchange (London)  
Old Broad Street  
London, EC2NIHP England

## General Counsel

McElwee, McElwee, Cannon & Warden  
906 B Street Rear  
North Wilkesboro, NC 28659  
(919) 838-1111

## Certified Public Accountants

Deloitte Haskins & Sells  
2000 First Citizens Bank Plaza  
Charlotte, NC 28202  
(704) 372-3560

## Disclosure Policy

Lowe's Companies, Inc., for more than 27 years, has maintained a policy of complete and free disclosure of all information needed by investors to determine whether they should buy, sell or hold Lowe's stock. The company seeks new and fresh ways of presenting financial and other information about itself to better inform the investor.

# Supplemental Information

## 27-Year Review

### LIFO accounting

Fiscal Years End January 31 of Following Calendar Year  
Except Fiscal Years Prior to 1978 Which Ended July 31.

	10-Year CGR	Fiscal 1988	Fiscal 1987	Fiscal 1986	Fiscal 1985	Fiscal 1984
<b>Stores and People</b>						
1 Number of Stores	4.1%	296	295	300	282	248
2 Square Footage	10.8	5,062,865	4,773,743	4,452,161	3,641,762	2,980,000
3 Number of Employees	9.8	14,774	14,761	14,783	13,317	10,727
4 Customers Served (Thousands)	15.9%	43,744	40,739	36,346	31,477	23,938
5 Average Customer Purchase		\$57.54	\$59.95	\$62.83	\$65.84	\$70.55
<b>Comparative Income Statement (Thousands)</b>						
6 Total Sales	12.2%	\$2,516,879	\$2,442,177	\$2,283,480	\$2,072,569	\$1,688,738
7 LIFO Credit (Charge)	NM	(5,058)	(3,829)	2,960	3,445	2,686
8 Pre-Tax Earnings <sup>1</sup>	8.7	105,604	90,787	108,126	112,865	119,076
9 Taxes on Income	5.1	36,403	34,833	53,022	53,151	57,633
10 Extraordinary Item Net of Tax	NM	—	—	(2,885)	—	—
11 Cumulative Effect on Prior Years of a Change in Accounting Principle	NM	—	5,226	—	—	—
12 Net Earnings	11.3	69,201	61,180	52,219	59,714	61,443
13 Net Cash From Operating Activities	24.6	168,386	108,264	55,174	64,845	54,009
14 Cash Dividends Paid	12.7	17,281	17,040	15,597	13,199	11,600
15 Earnings Retained	10.9%	\$ 51,920	\$ 44,140	\$ 36,622	\$ 46,515	\$ 49,843
<b>Dollars Per Share (Weighted Average Number of Shares)</b>						
16 Sales	10.6%	\$66.68	\$61.49	\$58.51	\$56.77	\$46.59
17 Earnings	9.6	1.83	1.54	1.34	1.64	1.70
18 Net Cash From Operating Activities	22.8	4.46	2.73	1.41	1.78	1.49
19 Cash Dividends	11.1	.46	.43	.40	.36	.32
20 Earnings Retained	9.2	1.38	1.11	.94	1.27	1.38
21 Shareholders' Equity	13.7%	\$15.55	\$14.66	\$13.85	\$11.16	\$ 9.42
<b>Strategic Profit Model <sup>2</sup></b>						
22 Asset Turnover (Sales Per Asset Dollar)		\$ 2.45	\$ 2.52	\$ 2.67	\$ 3.26	\$ 3.24
23 Return on Sales (Net Earnings as Percent of Sales)		× 2.75%	× 2.51%	× 2.29%	× 2.88%	× 3.64%
24 Return on Assets		= 6.74%	= 6.31%	= 6.10%	= 9.39%	= 11.79%
25 Leverage Factor (Asset Dollars Per Equity Dollar)		× 1.76	× 1.79	× 2.10	× 1.86	× 1.79
26 Return on Shareholders' Equity		= 11.88%	= 11.32%	= 12.82%	= 17.49%	= 21.10%
<b>Comparative Balance Sheet (Thousands)</b>						
27 Total Current Assets	11.8%	\$ 577,550	\$ 552,464	\$ 546,883	\$ 534,649	\$ 432,370
28 Cash and Short-Term Investments	20.5	60,257	43,889	50,013	87,190	84,204
29 Accounts Receivable — Net	6.7	127,738	117,932	118,693	127,603	97,319
30 Inventories (Lower of Cost or Market)	13.1	379,383	373,846	368,135	313,143	248,268
31 Other Current Assets	18.2	9,466	7,325	10,042	6,713	2,579
32 Fixed Assets	19.6	479,886	453,008	413,220	308,603	195,237
33 Other Assets	54.3	28,361	21,857	9,116	12,939	6,501
34 Total Assets	14.9	1,085,797	1,027,329	969,219	856,191	634,108
35 Total Current Liabilities	16.1	285,733	231,906	257,303	251,669	189,418
36 Accounts Payable	16.4	203,956	157,089	163,260	168,068	125,003
37 Other Current Liabilities	15.2	44,211	43,766	94,043	83,601	64,415
38 Long-Term Debt (Excluding Current Portion)	11.3	190,056	186,219	152,977	183,909	92,488
39 Total Liabilities	14.5	498,946	444,893	428,685	448,818	292,760
40 Shareholders' Equity	15.4%	\$ 586,851	\$ 582,436	\$ 540,534	\$407,373	\$341,348
41 Equity Divided by Long-Term Debt (Excluding Current Portion)		3.09	3.13	3.53	2.22	3.69
42 Year-End Leverage Factor: Assets Divided by Equity		1.85	1.76	1.79	2.10	1.86
<b>Shareholders, Shares and Book Value</b>						
43 Shareholders of Record, Year-End		6,602	6,163	6,052	6,253	6,372
44 Shares Outstanding, Year-End (Thousands) <sup>3</sup>		37,139	39,498	39,624	37,082	36,248
45 Weighted Average Shares, Year-End (Thousands)		37,748	39,719	39,029	36,509	36,248
46 Book Value		\$15.80	\$14.75	\$13.64	\$10.99	\$ 9.42
<b>Stock Price Range During Year <sup>4</sup></b>						
47 High (Adjusted for Stock Splits)		\$24.38	\$32.50	\$40.88	\$31.13	\$29.63
48 Low (Adjusted for Stock Splits)		\$18.00	\$15.25	\$23.13	\$20.88	\$16.25
<b>Price Earnings Ratio</b>						
49 High		13	21	31	19	17
50 Low		10	10	17	13	10

FIFO accounting

Fiscal 1983	Fiscal 1982	Fiscal 1981	Fiscal 1980	Fiscal 1979	Base Year Fiscal 1978	Fiscal 1977	Fiscal 1976
238	235	229	214	209	199	175	150
2,529,040	2,337,351	2,232,008	1,998,239	1,931,419	1,817,000	1,570,000	1,330,000
8,715	7,080	6,003	5,950	5,804	5,809	5,274	4,378
18,889	15,075	11,973	11,376	11,024	10,013	8,224	7,033
\$75.74	\$68.59	\$74.17	\$77.67	\$82.02	\$79.20	\$72.27	\$66.12
<b>\$1,430,576</b>	<b>\$1,034,032</b>	<b>\$888,042</b>	<b>\$883,614</b>	<b>\$904,651</b>	<b>\$793,125</b>	<b>\$594,358</b>	<b>\$465,052</b>
(5,684)	(1,626)	(920)	(6,686)	(7,484)	(8,466)	—	—
96,891	47,525	33,226	36,277	47,331	45,865	42,487	34,295
46,276	22,394	15,367	17,386	22,376	22,141	21,056	16,984
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
<b>50,615</b>	<b>25,131</b>	<b>17,859</b>	<b>18,891</b>	<b>24,955</b>	<b>23,724</b>	<b>21,431</b>	<b>17,311</b>
42,976	16,328	58,439	17,594	45,886	18,701	6,239	12,149
11,600	9,800	9,376	7,813	6,511	5,209	2,735	1,272
\$ 39,015	\$ 15,331	\$ 8,483	\$ 11,078	\$ 18,444	\$ 18,515	\$ 18,696	\$ 16,039
\$39.53	\$31.02	\$27.28	\$27.14	\$27.79	\$24.36	\$18.26	\$14.29
<b>1.40</b>	<b>.75</b>	<b>.55</b>	<b>.58</b>	<b>.77</b>	<b>.73</b>	<b>.66</b>	<b>.53</b>
1.19	.49	1.80	.54	1.41	.57	.19	.37
<b>.32</b>	<b>.29</b>	<b>.29</b>	<b>.24</b>	<b>.20</b>	<b>.16</b>	<b>.08</b>	<b>.04</b>
1.08	.46	.26	.34	.57	.57	.57	.49
\$ 8.05	\$ 5.96	\$ 5.45	\$ 5.19	\$ 4.89	\$ 4.32	\$ 3.47	\$ 2.90
\$ 3.64	\$ 3.37	\$ 2.94	\$ 2.95	\$ 3.35	\$ 3.28	\$ 3.00	\$ 3.01
× 3.54%	× 2.43%	× 2.01%	× 2.14%	× 2.76%	× 2.99%	× 3.61%	× 3.72%
= 12.89%	= 8.19%	= 5.91%	= 6.31%	= 9.25%	= 9.81%	= 10.83%	= 11.22%
× 1.98	× 1.73	× 1.79	× 1.90	× 1.92	× 1.98	× 2.10	× 1.97
= 25.52%	= 14.17%	= 10.58%	= 11.99%	= 17.76%	= 19.42%	= 22.74%	= 22.12%
\$ 377,572	\$ 271,535	\$ 195,370	\$ 209,756	\$ 210,913	\$ 189,228	\$ 186,198	\$ 146,448
74,249	25,341	32,070	15,567	22,959	9,363	13,324	15,620
94,658	75,388	48,107	68,172	66,442	66,836	76,162	52,322
205,100	167,535	113,529	125,104	118,511	111,248	96,164	77,963
3,565	3,271	1,664	913	3,001	1,781	548	544
141,238	121,406	110,673	91,399	88,695	80,096	60,210	50,434
827	559	521	573	291	371	401	859
<b>519,637</b>	<b>393,500</b>	<b>306,564</b>	<b>301,728</b>	<b>299,899</b>	<b>269,695</b>	<b>246,809</b>	<b>197,741</b>
168,830	134,999	80,199	80,781	84,690	64,081	87,709	66,705
110,415	90,580	47,959	52,003	45,567	44,833	60,324	42,942
58,415	44,419	32,240	28,778	25,245	10,694	27,385	23,764
51,891	56,233	48,864	51,929	56,112	64,961	46,244	36,664
<b>228,132</b>	<b>194,717</b>	<b>129,063</b>	<b>132,710</b>	<b>140,802</b>	<b>129,042</b>	<b>133,953</b>	<b>103,370</b>
<b>\$291,505</b>	<b>\$198,783</b>	<b>\$177,501</b>	<b>\$169,018</b>	<b>\$159,097</b>	<b>\$140,653</b>	<b>\$112,857</b>	<b>\$ 94,371</b>
5.62	3.53	3.63	3.25	2.84	2.17	2.44	2.57
1.78	1.98	1.73	1.79	1.89	1.92	2.19	2.10
5,928	5,144	5,415	4,620	5,147	4,750	4,588	3,846
36,248	33,333	32,555	32,555	32,555	32,555	32,555	32,555
36,193	33,333	32,555	32,555	32,555	32,555	32,555	32,555
\$ 8.04	\$ 5.96	\$ 5.45	\$ 5.19	\$ 4.89	\$ 4.32	\$ 3.47	\$ 2.90
\$32.75	\$22.35	\$11.36	\$ 9.95	\$ 8.20	\$10.40	\$13.10	\$13.73
\$18.45	\$ 7.65	\$ 6.30	\$ 5.35	\$ 6.50	\$ 6.60	\$ 8.70	\$10.60
23	30	21	17	11	14	20	26
13	10	11	9	8	9	13	20

Fiscal 1975	Fiscal 1970	Fiscal 1965	Fiscal 1961
130	64	35	15
1,209,000	379,653	199,537	71,680
3,574	1,670	762	399
5,702	2,729	1,284	651
\$59.78	\$47.09	\$44.44	\$47.85
<b>\$340,882</b>	<b>\$128,491</b>	<b>\$57,044</b>	<b>\$31,128</b>
—	—	—	—
20,811	9,938	3,942	1,890
10,319	5,068	1,896	956
—	—	—	—
—	—	—	—
<b>10,492</b>	<b>4,870</b>	<b>2,046</b>	<b>934</b>
8,988	4,349	2,693	1,227
1,171	844	519	102
\$ 9,321	\$ 4,026	\$ 1,527	\$ 832
\$10.47	\$ 4.07	\$ 1.87	\$ 1.04
.32	.15	.07	.03
.28	.14	.09	.04
.04	.03	.02	.03
.29	.13	.05	.03
\$ 2.40	\$ .79	\$ .31	\$ .17
\$ 2.26	\$ 3.09	\$ 3.20	\$ 3.32
× 3.08%	× 3.79%	× 3.59%	× 3.00%
= 6.96%	= 11.72%	= 11.49%	= 9.96%
× 2.24	× 1.99	× 2.31	× 2.57
= 15.60%	= 23.34%	= 26.55%	= 25.60%
\$ 108,784	\$ 38,878	\$ 19,187	\$ 9,305
11,574	4,658	3,801	1,299
38,533	14,887	7,165	3,108
58,223	19,040	8,156	4,801
454	293	65	97
45,127	10,390	3,832	1,229
452	148	77	1,301
<b>154,363</b>	<b>49,416</b>	<b>23,096</b>	<b>11,835</b>
42,964	21,212	11,213	4,922
29,727	15,178	7,913	3,187
13,236	6,034	3,300	1,735
33,156	3,315	2,377	1,791
<b>76,120</b>	<b>24,527</b>	<b>13,606</b>	<b>6,792</b>
<b>\$ 78,243</b>	<b>\$24,889</b>	<b>\$ 9,490</b>	<b>\$ 5,043</b>
2.36	7.51	3.99	2.81
1.97	1.99	2.43	2.35
3,755	2,117	1,871	—
32,555	31,558	30,458	30,000
32,555	31,558	30,458	30,000
\$ 2.40	\$ .79	\$ .31	\$ .17
\$12.40	\$ 4.63	\$ 1.02	—
\$ 5.33	\$ 2.47	\$ .63	—
39	31	15	—
17	16	9	—

### Stock splits and stock dividends since 1960

- A 100% stock dividend, effective April 5, 1966, (which had the net effect of a 2-for-1 stock split).
- A 2-for-1 stock split, effective November 18, 1969.
- A 50% stock dividend, effective November 30, 1971, (which had the net effect of a 3-for-2 stock split).
- A 33⅓% stock dividend, effective July 25, 1972, (which had the net effect of a 4-for-3 stock split).
- A 50% stock dividend, effective June 2, 1976, (which had the net effect of a 3-for-2 stock split).
- A 3-for-2 stock split, effective November 2, 1981.
- A 5-for-3 stock split, effective April 29, 1983.

### Explanatory notes

- <sup>1</sup> Before extraordinary item in 1986 and cumulative effect on prior years of a change in accounting principle in 1987.
- <sup>2</sup> See page 36 for explanation of computational method.
- <sup>3</sup> Variation in the outstanding shares is a result of the following:
  - 1963 — Treasury Stock purchase
  - February 2, 1982 — 778,018 common shares issued to ESOP
  - February 8, 1983 — 2.917 million common shares sold in public issuance.
  - October 10, 1985 — 833,373 common shares issued to ESOP
  - April 25, 1986 — 2.2 million common shares sold in public issuance.
  - May 15, 1986 — 300,000 common shares issued to ESOP.
  - 1987 — Treasury Stock purchase
  - 1988 — Treasury Stock purchase
  - Ongoing employee option transactions.
- <sup>4</sup> Stock price source: *The Wall Street Journal*  
 NM = not meaningful  
 CGR = compound growth rate

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## **Lowe's Profile**

Lowe's Companies, Inc. is America's largest specialty retailer of building materials and related products for the do-it-yourself home improvement and home construction markets.

Lowe's 296 stores provide merchandise and assistance to customers in 20 states located mainly in the South Atlantic and South Central regions of the United States.

Uniquely in our industry, Lowe's serves the needs of a triple customer franchise: home center customers, durable goods customers, and professional building contractors. Our product assortment includes many national brands, and is counted in stockkeeping units which currently number more than 30,000. We tailor our merchandise to the markets that we serve. Typically, our larger stores will stock approximately 20,000 SKU's, and this number will grow.

Our average store in 1988 did \$8.5 million in sales, of which 44% was to home center customers, 41% was to professional contractors, and 15% was to durable goods customers.

At the end of 1988, our employees numbered 14,800, or an average of 50 per store, and owned, through our Employee Stock Ownership Plan, approximately 9.5 million Lowe's shares which represents 26% of total shares outstanding!

Lowe's has been a publicly owned company for 27 years, since October 6, 1961. Our stock has been listed on the New York Stock Exchange since December 19, 1979; on the Pacific Stock Exchange since January 26, 1981; and on The Stock Exchange in London since October 6, 1981. Shares are traded under the ticker symbol of LOW.

# **LOWE'S<sup>®</sup>**

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