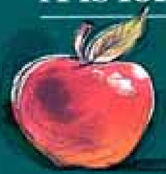
Lowe's 1985 Annual Report

A is for apple and annual report

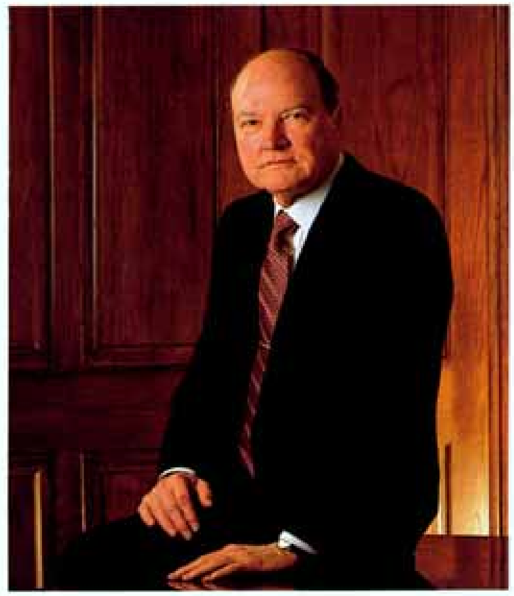


Lowe's annual report is our yearly opportunity to let stockholders and the public see us as we see ourselves. This year, in addition to the audit information and the charts and graphs that lend perspective to our numbers, we examine our marketplace in terms of competition and positioning for the future. We discuss the artful science of retailing in general, and we look closely at how Lowe's applies that science in our particular market niche.

With the unique combination of our geographic base, customer franchise, and operational philosophies, we believe Lowe's stands out in the marketplace like an apple among oranges. That's how we see ourselves in 1986, and how we'd like to be seen — not as better than the rest, but incomparable!

Contents

Robert L. Strickland



Leonard G. Herring

Dear Shareholders:

We choose to begin this letter to you with traditional financial highlights:

Financial Highlights

Fiscal years end on January 31 of following year

	Change	Fiscal 1985	Fiscal 1984
Sales	+23%	$2,072,569,000	$1,688,738,000
Net earnings	- 3	59,714,000	61,443,000
Cash flow[1]	+ 6	84,452,000	79,691,000
Per share:			
Earnings	- 4	1.64	1.70
Cash flow[1]	+ 5	2.31	2.20
Cash dividends	+13	.36	.32
At year-end:			
Shareholders' equity	+19	407,373,000	341,348,000
Total assets	+35	$ 857,389,000	$ 635,344,000
Number of stores	+14%	282	248

[1] Equivalent to "Funds from operations" in the Consolidated Statements of Changes in Financial Position.

A Review of 1985 in 85 Words

We are pleased to report our greatest year ever in sales, cash flow, dividends, and in expansion of Lowe's stores and retail square footage. A decline in earnings is never good news, but this one is attributable to significant planned expenses associated with our 1985 expansion program which is part of our strategic thrust to become a better and more dominant retailer in our 21-state trading area. We would also note that it is the second best earnings performance in the history of Lowe's.

Sales Performance

Our most significant sales achievement in 1985 was the surpassing of $2 billion in volume, a first for Lowe's and a first for our industry. It took from 1946 to 1982 to achieve $1 billion. Doubling that in just three years testifies to a lot of things, but the two most important were the smart and dedicated hard work by all our employees, and the growing consumer market place acceptance of Lowe's offering. We offer an attractive expanded product assortment, which is strategized, bought right, and promoted aggressively at Lowe's Low Prices by our merchants and marketers, and is displayed in bigger and better stores, which are staffed by the most experienced and broadly capable store operations people in the industry.

Specifically, retail sales increased by 23% during the year to $1,087,411,000. Sales to professional customers increased a balanced 22%, to $985,158,000. Sales from comparable stores, those open more than a year on January 31, 1986, posted a 10% sales gain, down from last year's 17%, but respectable in 1985's economy. Sales per store from average stores open, a measure that takes into account comparable stores plus partial year results from new stores, totaled $7,584,000 each. Retail sales per average store were $3,979,000 and have posted an annual average compound growth rate of 15% since 1980. Professional sales per average store have grown a solid 10.5% per year since 1980.

Cash Flow Trends

Many observers believe trends in cash flow are more important than trends in earnings. Indeed the respected general public investment publication *Value Line* does. Their "value line" for the price of a company's shares is computed from cash flow per share times a multiple. In our public financial reports, including this one, we give a simplified version of cash flow. Its primary components are earnings after taxes, depreciation, and deferred income taxes, and is equivalent to "funds from operations" in funds flow statements.

Our 1985 cash flow per share was $2.31, up 5% from last year's $2.20. Longer term trends may be found on the inside back cover of this report.

Taxes

Total tax liabilities maintained their relatively stable and high proportions of earnings before taxes, being 47.1% in 1985 compared to 48.4% in 1984. The decline in tax rate of 1.3% was due to increased investment tax credits this past year, attributable primarily to our stepped-up expansion program. This "high" opinion is shared, both by President Reagan who has recommended a maximum corporate income tax rate of 33%, and Chairman Dan Rostenkowski of the House Ways and Means Committee whose Tax Reform Bill, H.R. 3838, recommends a maximum corporate income tax rate of 36%.

We agree with certain of the business taxation thrusts in H.R. 3838 as being in the best interests of the country. The majority of jobs today and the majority of the new jobs to be created in the future are and will be, in and by the service industries who pay the highest rates of corporate taxes. These "sunrise" industries should have a federal tax burden that is more commensurate with the "sunset" industries than current law provides, both for the good of the American economy, and for the growth of federal revenue to pay the government's bills in the future.

Net Earnings Perspective

In last year's letter to you, we quoted Ben Gordon, the editor of Inside Retailing who has stated: "The toughest thing to do is to invest in new strategy." Ben's statement takes the often made observation (and criticism) that too often American managements concentrate exclusively on the short term at the expense of the long term, and expresses it in a way that we can all understand and relate to. Yet, investing in new strategy is exactly what Lowe's did in 1981 and 1982 that simultaneously curtailed earnings in those years, and laid the foundation for the superior results of the following two years. As shown in the inside back cover, our earnings progression had the following order of magnitude: 1980 — $19 million; 1981 — $18 million; 1982 — $25 million; 1983 — $51 million; and 1984 — $61 million.

In 1985, we invested in new strategy — in new capacity — in a major way. The details of our expansion in stores and programs for future growth are covered elsewhere in this report in some detail. Expansion disrupts operations in retrofitted stores and adds expenses of new stores, impacting corporate earnings downward during the year of construction. These investments are integral to our strategic direction and will prove to have been in your best interests.

Another perspective on our 1985 earnings performance is also shown in the inside back cover. At $59.7 million, its 5-year annual average compound growth rate has been 25.9% per year since 1980, and 1980 was not the trough year. This compares favorably with the compound growth rate in total sales over the same period of 18.6%.

Strategic Market Growth

In last year's letter, we discussed growth goals for the company of 5% in new stores in new markets and 10% in additional square footage in current markets. Our aggressive expansion actions in 1985 led to 32 stores, or a 14% increase in new stores in new markets, and 314,000 square feet in additional sales floor space in existing markets for an 11% increase, which included six new "cluster" stores in existing markets. Total growth in retail sales floor square footage was approximately 660,000 or a 22% increase for fiscal 1985.

In the next few years, we will continue expanding at an aggressive pace, but the qualitative parameters of this growth bears equal attention. We will spend the vast majority of our expansion dollars in our "Heartland" or our primary geographic market area — the Southeast. Within our current market area there exist numerous opportunities in smaller communities and in current profitable larger Lowe's markets. We will invest money wisely in these markets, taking advantage of our well-established image and our existing distribution network while earning a higher return on expansion dollars. Enough opportunities exist in our current general market area to fill strategic expansion schedules through the balance of this decade.

Acquisition Update

In the face of a very depressed petrochemical-based economy, the 25 units that Lowe's acquired from Boise Cascade in 1985 returned a profit in the first year. Amidst a business atmosphere in parts of Texas and Oklahoma, so depressed and competitive that Lowe's chose to close four small stores near Houston, the newly acquired stores succeeded in their first year under the Lowe's banner. To date, these stores are "on line" with our newest point-of-sale and inventory control data processing equipment. They received a basic assortment of Lowe's product lines in 1985, and the process of installing all of Lowe's stockkeeping items is continuing. Expansion and major remodeling of a number of these stores will commence in 1986, as we bring the selling power of our RSVP sales floors to these new markets.

Competitive Profitability

This phrase has been our standard for high-level performance for some years now. We define competitive profitability as an increase in market share and in gross margin, obviously more difficult to achieve simultaneously than just one or the other. In fiscal 1985, our national market penetration and regional market share increased, sparked by a healthy growth in comparable store sales of 10%, and our acquisition and expansion program. Our gross margin dollars were down slightly as a percentage of sales in 1985, and were affected by several factors, including higher inventory shrinkage, and falling commodity prices.

The five-year trends below are strongly indicative of continued progress in this measure since 1980, and we intend to continue this high level performance.

Growth trends

	'80-'85 dollar growth rate	'84-'85 change	Fiscal year 1985	1984	1983	1980
Market size:			Billions of dollars			
United States	+ 44%	+ 6%	$ 72.9	$ 68.7	$ 59.7	$ 50.7
South	+ 63%	+ 5%	$ 27.5	$ 26.2	$ 22.7	$ 16.9
Lowe's sales	+135%	+23%	$2.073	$1.689	$1.430	$.884
Lowe's LIFO gross margin	+149%	+20%	$ .512	$ .426	$ .359	$.206

Financial Position

Our financial position remains strong. Shareholders' equity increased to $407 million from $341 million over the previous year, with this year's increase of 19% beating last year's 17%.

During 1985 we funded our expansion program by borrowing $101 million in long-term debt, including the company's first public debt offering, an issue of $75 million of 11.5% ten-year notes. The issue was rated A and A3 by Standard & Poor's and Moody's, respectively. Additionally, the company issued $19 million in industrial revenue bonds during the year.

Stock Investment, Splits and Dividends

As a matter of historical record, here is what has happened to a $1,225 investment in 100 shares of Lowe's, bought on the offering date in October, 1961, and held as a long-term investment. At $35 per share, 3,000 shares have a market value of $105,000, eighty-six times the original investment.

Date	Action	Received	Total shares
Oct. 1961	Bought 100 shares	100	100
May 1966	100% Dividend (2 for 1)	100	200
Nov. 1969	Stock Split (2 for 1)	200	400
Dec. 1971	50% Dividend (3 for 2)	200	600
Aug. 1972	33⅓% Dividend (4 for 3)	200	800
June 1976	50% Dividend (3 for 2)	400	1,200
Oct. 1981	50% Dividend (3 for 2)	600	1,800
Apr. 1983	66⅔% Dividend (5 for 3)	1,200	3,000

We are pleased to report that a dividend of 9 cents was paid in each quarter of 1985, bringing the dividend payment for the year to 36 cents per share. And for 1986, the Board has voted to increase the quarterly dividend to 10 cents per share. Again, historically, one share, which cost $12.25 in 1961 is now thirty shares with a cost basis of just about 41 cents each. Therefore, the 1986 cash dividend rate of 40 cents per share is virtually a 100% annual yield on the original investment!

Employee Stock Ownership Plan

Our ESOP, begun on January 1, 1978, continues to be an outstanding asset to the company, our employee shareholders, and all other shareholders alike. All employees are eligible for membership after just a few months service. They have full voting rights on all shares allocated to their accounts on an annual basis. Due to a change in the Tax Code in 1984, we were able to pass through to employee shareholders cash dividends for 1984 totaling $1,385,000. These funds were deducted from our federal taxable income, resulting in a tax benefit of $721,000 which was treated as an addition to capital surplus. Also, we issued new stock to the ESOP in 1985 for our 1984 contribution, and in effect raised $18,800,000 in new equity capital in the most cost-effective way possible. The ESOP trust is Lowe's largest shareholder, with approximately 18% ownership of the company.

The New Organization

In 1985 some of the key players on our management team shifted positions and assumed new responsibilities in order to run a more unified, aggressive offense. Wendell Emerine has opened new lines of communication as Executive Vice President, Sales, Store Operations, and Merchandising; Harry Underwood brings new team involvement to his roles as Senior Vice President of Finance and Treasurer; and Dwight Pardue, Senior Executive Vice President, has assumed the reins of our Real Estate department, bringing years of experience in store operations to this vital, capital-intensive area.

Board of Directors Update

We are pleased to announce that two leading retail executives in America have accepted nomination to Lowe's Board of Directors, pending approval of our shareholders at our annual meeting in May. They are Mr. William A. Andres, formerly Chairman of the Board of Dayton Hudson Corporation, and Mr. John M. Belk who is Chairman of the Board of Belk Stores Services, Inc. These new members will bring invaluable talent and expertise to our Board.

1986 Outlook

We plan no "grass is greener" diversifications. Sticking to our basics has brought us to the position of industry leadership. We shall continue our planned and controlled strategic growth for the sake of profitability, not just for the sake of growth. We shall continue to position Lowe's, and what we offer, adroitly in our respective markets, with strength and distinction. One year from now, we expect to report Lowe's greatest year yet.

Partners-In-Interest

In our Mission Statement we still identify our customers, our suppliers, our employees and our shareholders as Lowe's Partners-In-Interest. We appreciate the support from our partners, and we will strive to merit your continuing confidence, to increase your wealth as shareholders, and to keep Lowe's the apple of your eye.

Cordial good wishes,

Robert L. Strickland

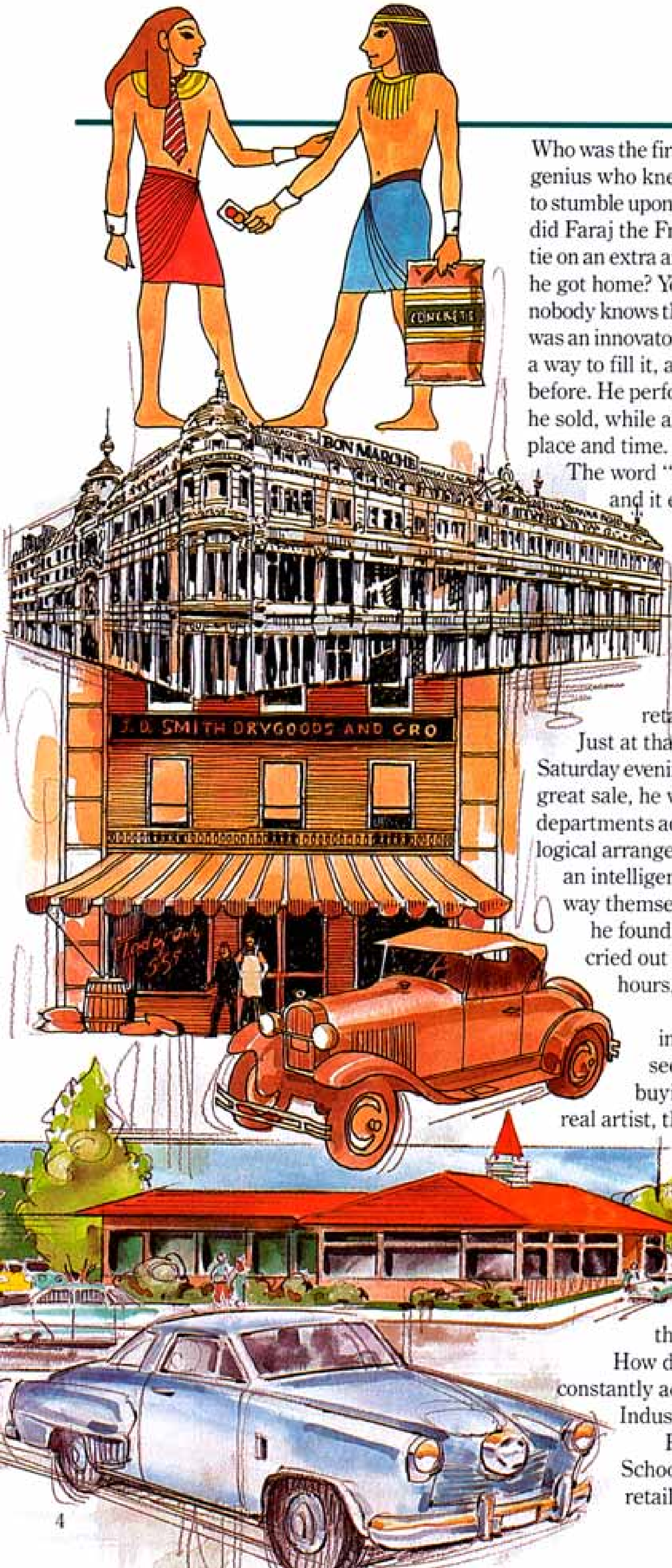
Robert L. Strickland
Chairman of the Board

Leonard G. Herring

Leonard G. Herring
President and
Chief Executive Officer

North Wilkesboro, North Carolina

The art and science of retailing



Who was the first retailer? When and where did he do business? Was he an eccentric genius who knew what he was getting into, or did the village idiot just happen to stumble upon a great idea? One day long ago in the shadow of the Great Pyramids, did Faraj the Freckled, realizing that his camel's load was unbalanced, decide to tie on an extra air conditioner for resale to his brother-in-law, Sufez the Sweaty, once he got home? Your flight of fancy is as good as the next guy's, because of course nobody knows the facts. But it's surely reasonable to say that the world's first retailer was an innovator, a perceptive and imaginative soul who saw a need and conceived a way to fill it, and who wasn't afraid to do something that had never been done before. He performed a service for both the maker and the consumer of the goods he sold, while also carving out for himself a unique niche in the economy of his place and time.

The word "retail" occurs in English as far back as the fourteenth century, and it existed in other languages earlier still, for the concept is ancient. But for centuries retailing was hardly regarded as a science. Rather, it was practiced by shrewd traders and observers of human behavior who operated in a free-form style bearing more resemblance to art. In 1883 the French naturalist writer Emile Zola published a novel about retailing titled *Ladies' Paradise* (*Au Bonheur des Dames*). As the following passage reveals, the hero, Octave Mouret, is a classic example of the retailer as artist:

Just at that moment, Mouret was a prey to an attack of inspiration. On the Saturday evening, as he was giving a last look at the preparations for the Monday's great sale, he was suddenly struck with the idea that the arrangement of the departments adopted by him was wrong and stupid; and yet it seemed a perfectly logical arrangement: the stuffs on one side, the made-up articles on the other, an intelligent order of things which would enable the customers to find their way themselves. He had thought of this arrangement formerly . . . and now he found his faith shaken, just as he carried out his idea. Suddenly he cried out that they would "have to alter all that." They had forty-eight hours, and half of what had been done had to be changed.

Octave Mouret's last-minute changes to his sales floor resulted in many customers getting lost in the store during the "great sale," seeing many more displays than they had intended to see, and buying things that they hadn't previously realized they needed! A real artist, that Mouret, and in fact a real-life genius, for author Zola based the character on the founder of Paris' first great department store, the Bon Marche.

With the modern era came an increased desire to discover the rules that governed various modes of economic interaction. Great retailing successes were compared and carefully scrutinized both by economists and by new generations of retailing entrepreneurs. What was the method in the seeming madness of successful innovators? How did they uniquely adapt themselves to their times, in view of the constantly accelerating changes in the marketplace that began with the Industrial Revolution and haven't ended yet?

Professor Emeritus Malcolm P. McNair of the Harvard Graduate School of Business perceived and astutely analyzed the life cycle of retailing, and he described it in a speech given in 1969:

Underlying many of the external changes in retailing over the past fifty years there is a sort of never-ending inner revolution, which I have sometimes called the *revolving wheel*. This is an implicit, continuous, competitive revolution consisting of a revolving sequence of innovation and maturity. The department store itself was a prime innovation one hundred years ago, likewise the mail-order catalogue business, and a little later the five-and-dime stores. The early food chains swept all before them until they encountered a new innovation, the supermarket. . . Sometimes the innovations have virtually wiped out older forms of business; sometimes they have continued side by side with existing types. This cycle frequently runs from the emergence of a daring, low-cost, low-margin innovator, initially frowned on as illegitimate, through the various stages of gaining respectability, attaining importance, incurring higher costs and needing higher margins, reaching maturity, and becoming in turn a defender of the status quo against a still newer innovator.

The understanding of such a "revolving wheel" naturally gave rise to a new question: how could a successful enterprise maintain itself at the top of the wheel, in a position of dominance, and avoid the downward arc of the retailing life cycle? A friend and former pupil of McNair, Professor Walter P. Salmon of the Harvard Business School, has itemized some hallmarks of enduring retail success in this age of overnight booms and morning-after busts:

Everyday low prices are preferable to occasional super promotions because they appeal to busy two-income families who can thus obtain value at their convenience.

Product assortments should provide a more meaningful choice than those of competitors.

Centralized purchasing is necessary to maintain clout with suppliers, while at the same time there should be enough decentralization to permit individualized, specially tailored merchandise and service offerings where appropriate.

Clustered stores to give appropriate "critical mass" in any given market are essential for economies of scale in advertising and sales promotion. However, growth of new facilities should be at a digestible rate.

Distribution centers or warehouses assure better inventory management and lower total costs in freight and inventory than shipment directly from manufacturers to stores.

State-of-the-art information systems are needed to best facilitate stock planning, implementation, and timely merchandise replenishment.

Management integration and cross-breeding should be the practice, to insure that executives have a well-rounded perspective of their company's activities rather than a linear view.

Information systems? Store clusters? Vendor clout? To Faraj the Freckled, vendor clout might have been what he threatened to give Sufez the Sweaty for failing to make payments on that air conditioner! Retailing long ago left Faraj in the dust, and even artists like Octave Mouret would be astounded to see the science with which retailing is practiced nowadays. And yet, there will always be room in retailing for eccentric genius, for artistic originality, for informed inspiration — and that room will be at the top of the wheel of success.

Saying sooth about the home center industry

You don't have to be psychic to foresee major changes and shakeouts for the home center industry just around the bend. In our increasingly competitive market, it's getting harder for the consumer to tell the players — or even the game — without a scorecard. In order to survive and dominate in the period ahead, the aggressive retailer must create an image and establish an identity in the mind of the consumer. This strategy is known as "positioning."

Jack Trout, president of Trout and Ries Advertising Agency, is an internationally recognized authority on positioning and co-author of the book *Positioning: The Battle for Your Mind*. We invited him to meet us during the National Home Center Show in Chicago to give us some comments on positioning in this industry.

We also invited the cream of the home center press, who are often the first to perceive trends and predict changes in the marketplace. Polishing up their crystal balls for us were Pat Coleman, editor of *Building Supply Home Centers* Magazine; Don Hunter, publisher of *Home Center* Magazine; and Wyatt Kash, editor of *National Home Center News*. Representing Lowe's were President Leonard Herring, Executive Vice President Wendell Emerine, and Vice President Cliff Oxford.

From left: Cliff Oxford, Wendell Emerine, Leonard Herring, Jack Trout, Wyatt Kash, Pat Coleman, Don Hunter.

In the chapter of *Positioning* called "Positioning A Leader," Jack Trout wrote, "The time for extra effort is clearly when the situation is in doubt." In other words, strike hardest to establish yourself as a leader when there is no obviously predominant leader in your field. For the home center industry, is that time now? We at Lowe's naturally feel we have met the leader, and it is us! But what weapons do challengers strike with? And will they be lastingly effective? For a start, Wendell Emerine asked our soothsayers what they thought about super promotional pricing.

"You're being kind to refer to it that way," said Pat Coleman. "That's a genteel term for cutthroat pricing and becoming price monsters. It's probably one of the biggest issues that we face now in our industry.

"A few weeks ago I went into a bookstore and bought *Patton's Principles*. You know, one of Patton's rules was 'Never fight a battle when nothing is gained by winning,' and that says a lot about the pricing battle. To quote Patton, 'Don't waste time fighting the battle the enemy wants you to fight. Fight the ones that you want to fight, on your own terms, to win.'

"We [at *Building Supply Home Centers* Magazine] have just finished a new study of 3,500 homeowners. Five years ago, fewer than half of them shopped more than one store when they went to buy home improvement products. Today, more than seventy percent do. So the challenge is to be the first place they shop."

Wendell noted, "That relates to what Jack says about a leader being 'the first to get into the mind of the prospect.' "

"Right," Pat continued. "And when we asked those consumers what was at the heart of their decision making, this is what they said, in rank order: product durability, *then* price, followed by reliability, energy efficiency, perceived quality, appearance of product, ease of installation, ease of use, and the reputation of the store. So I think that the key things that retailers should stress are the value added concept, strong merchandise presentation, and knowledgeable sales people (which is certainly something that the chains in particular have been weak at over the past few years)."

"When the warehouse discounters began to show up in large cities, there was a feeling that perhaps their super promotional pricing played some part in actually expanding the market," observed Leonard Herring.

Wyatt Kash responded, "I think the market expansion very likely would have happened regardless of the warehouse stores. The warehouse stores created a lot of attention, first because of the seriousness with which they were attacking price, and second because the format was generally exciting and dramatically different because it was twice the size we'd seen until then. But I would argue that because of a number of economic circumstances, we would have had a general surge in growth anyway. I think that what happened primarily was that in a shorter period consumers became more aware of what home centers were or could be."

Said Don Hunter, "In 1983, when we began to see the warehouse explosion, the major tactic we saw was price. Then all of a sudden we had all these bland vanilla retailers in our market who didn't stand for anything. They didn't understand that they had to establish a position in the mind of the consumer, and as a result the only thing that they could do was drop their prices."

"If you're going to put something on sale," put in Jack Trout, "you've got to establish the value of it first. And they were so busy putting stuff on sale that they never took time to establish that."

So the consensus was that super promotional pricing is not the way to successfully position a home center retailing leader. What, then, Cliff Oxford asked, will make the consumer think of one store before another when there's a home project to be done?

In answer, Pat quoted Ted Levitt, who once said the customer " 'doesn't buy things, he buys solutions to problems.' I think we should keep that in mind in terms of merchandising presentation, inventory buying, and so on," Pat said. "The best advice, whether you're a chain or an independent, is the importance of being a problem-solving store or retailer: to promote projects because projects sell products."

"I can corroborate that," Wyatt volunteered. "In a study that *National Home Center News* did on the issue of customer loyalty, looking at households that had completed a major home improvement project in the last year, we asked them if they had a particular store that they tended to shop most. We found that in their preferred store, customers spent only half the dollars that they spent on the total project. That's saying the favored store was missing half the money spent on the project. It's interesting that the rest of the dollars were distributed over a lot of other stores, which again suggests that there is a great deal of room for improvement in terms of project activity." He added, "There is a critical shortage of merchandising talent within the home center industry."

Nobody present disputed that assertion, but Cliff asked why Wyatt thought it was true.

"I think most retailers in this industry are so steeped in product and price promotion that their mentality undermines the ability of the home improvement industry to find the level of merchandise expertise it requires," Wyatt answered. "I find it interesting to talk to people from discounters who've been hired by home center operations because they have experience running big chains. Many insist it doesn't matter what products are on the shelves, and fail to recognize home center merchandising needs to revolve around solving problems for projects, not just the product."

"Retailers should stress . . . the value added concept, strong merchandise presentation, and knowledgeable salespeople."
— Pat Coleman

Jack agreed. "I think there's a mentality in the retail world — what I call a 'price-and-item' mentality. This is so deeply set in the psychological makeup of many retailers that they are only comfortable in this price-and-item world. As soon as you try to get them away from it, they get exceptionally uncomfortable. But to me, the brilliant retailers are selling much more than just individual products."

Everyone nodded. Remember the last time you bought a suit or any other big-ticket clothing item? If the salesperson really knew his business, he probably tried to get you to buy into the designer's entire line. At the very least, he asked if you would like to see a belt to go with those trousers, or a tie that complemented the jacket. But in the building supply home center industry, if you ask for three gallons of paint, you get the cans and directions to the checkout counter.

"If retailers become idea centers, if they sell projects, if they have merchandise presentations that really stimulate the point of sale, then there is enormous opportunity for growth," Pat summarized.

Next, Wendell asked Don about a particular aspect of merchandising that Professor Walter Salmon has written about: the comparative virtues of centralized purchasing versus decentralization.

"Centralized buying puts quality on your shelves," Don stated. "It's as simple as that. It affords you the opportunity to have merchandising specialists do your buying — people who are trained, who are experts in the competitive market environment for a specific product category. It probably enables you to get new products, innovative products, into the system faster. You've got a central person who can look at what else is in the stores, see what other departments are able to do, and bring it all together to provide a total problem-solving solution for the customer, as we were just saying. Central purchasing gives more flexibility to change your product mix as you change your position and strategies in order to compete. It certainly enables you to follow the three basic rules of successful retailing: buy it right, handle it efficiently, and sell it competitively. And centralized purchasing gives you direct contact with vendor management, so you're not just dealing with salesmen coming into your stores.

"If there is a negative side to centralized purchasing," Don continued, "I guess it would be that decentralization might give you the opportunity to respond more quickly to local market conditions. If there was an unexpected run on a product, maybe you could get it in quicker — things like that. But I don't think those stack up against all the advantages of central buying.

"I don't say this to be touting Lowe's, but a system like yours probably incorporates the best of both worlds. Your local market managers have some ability to respond to local pricing and product competition, so you maintain some flexibility."

Don had mentioned that direct contact with vendor management was desirable, and this led our soothsayers to discuss the efficiency of product supply and distribution. If that efficiency could be increased, everyone agreed, manufacturers and retailers could market domestic-made products at competitive prices without giving up quality or margin.

"The answer is to develop systems whereby you can sell a value-oriented product at a competitive price," Don stated, "and in our business we are certainly seeing a trend away from low-end imports as a staple. Once everybody has them, you see, they cease to be an attraction and become just low-margin, price-oriented promotional items."

Pat said, "I think in the last few years there's been a change of attitude and tone both on the part of American manufacturers and the retailers themselves. Everybody is saying, 'Hey guys, we're all in this together, we have to figure out a way to be competitive.' And what is the key to that? One of the problems up until now has been that only a handful of chains have developed any sophistication in management information systems. There aren't many who have a system totally in place, and they'll tell you they've been using the computer 'for financial controls.' Well, 'control' and 'systems' are buzz words in this industry, and what everybody wants now is more systems at the merchandising level. You have to be able to track what's going on at that level. And I think if there was more interface among the manufacturers, wholesalers, and retailers, we would see some advances in this industry."

Wyatt observed that with product life cycles getting shorter and shorter, pretty soon Andy Warhol's prediction that "everyone will be famous for fifteen minutes" will be equally true of merchandise. In that case, you'll need a state-of-the-art computer system just to know what store you're in.

"The market expansion very likely would have happened regardless of the warehouse stores."
— *Wyatt Kash*

"That's a real danger, too," Pat said, "and I think one of the best things a management information system can do is help the retailer figure out where the heart and soul of his business really is. He has to know what the basics are. Sometimes, in the rush to put in more SKU's and take on more lines, he forgets the basics. But with good management information, he'll know right there at the point of sale where he should concentrate."

Jack chuckled. "You know, I've always joked that when the day comes that we can indeed push a button and monitor twenty thousand items, someone will discover that all we really needed was seventy-three! It's the old story — remember Howard Johnson and all those ice cream flavors? What really sold were vanilla and chocolate."

Don thought that tied in perfectly to Pat's point: with a good information system you know right away that vanilla and chocolate are where you're making your money. But what about other ways of measuring profitability — for instance, gross profit per square foot of sales floor?

"I understand what retailers are looking for when they talk about measuring profitability per square foot," Don said. "It gives them a standard with which they can find out if they're really making progress or just marking time. But on the other hand, you have to consider the store as a whole, not just as separate areas."

"Is it a legitimate measurement, then?" Wendell wondered.

"I would question that," Don answered. "Because what are you going to do — throw out something that doesn't return quite the profit per square foot that your computer says you must have? What if it's something that is part of your image, or part of what sells another product? What if it's part of your whole problem-solving positioning strategy?"

Leonard added, "I think that relates to Jack's story about the ice cream. Although they sold mostly chocolate and vanilla, the fact that they advertised the wide choice of flavors is what attracted customers."

"If you're going to sell nails, you can't just sell two kinds," Wendell put in.

"It's certainly tricky," Jack concluded.

The talk turned to brand names, and Wyatt was asked about product brand positioning compared with store positioning.

"I think it's important to understand that in this industry, unlike other retail industries, consumer awareness of brands is relatively limited," he said. "In a study that our magazine commissioned last October, when we asked consumers to name a brand in lighting, plumbing, and some other basic categories, only four brands were mentioned by more than a third of the households. So brand awareness is not high; and what that means is that stores have a tremendous edge because in many cases the consumer is buying the store's perceived expertise.

"With some products, who sells it is just as important to the consumer as who makes it. Paint is probably a good example of that, because you have to trust the store as well as the paint company to know you're getting reliability. In some other categories — faucets, for instance — a specific brand has fairly high recognition and it doesn't seem to matter where you buy it. Stores have the opportunity to take great advantage in product categories where brands aren't well-known. Conversely, you can make a case for the kind of 'killer department' within a store where you have a very high-profile brand that really brings in customers.

"Brand strategy will become a more critical issue as we get into the 1990's, but I believe that by and large, if a store has a good reputation and is well-positioned, this will be more influential with our customers than the manufacturer's name on a particular product."

We wondered what else Wyatt saw in his crystal ball for the Nineties. To prepare us to look ahead, he first took us into the past.

"In the evolution of the business as I understand it, home centers really became competition for the independent lumber and hardware dealers by combining their functions, and that was where the competition was in the late Sixties and early Seventies. Then in the Seventies, the chains grew into such a force that by the end of the decade we saw home center chains competing against other home center chains. In 1979 or so, when Home Depot appeared on the scene, we really started having major warfare. And all along we have had super-specialty companies that we tend to forget about — the Color Tiles and so on, until today in terms of competition you have a fractured mix of retailers in the total home improvement market (or what I like to call the housing after-market). And this has all been kind of layered on top of the traditional retailers supplying home builders. So the spectrum is broad and fuzzy right now, and positioning has never been more important."

Cliff observed, "In his dealings with Wall Street, Bob Strickland has always

"I don't think that our industry has put enough emphasis yet on specialty retailing."

— Don Hunter

centered Lowe's position around three factors: our small town orientation; our unique customer franchise (the fact that we're the largest company in the nation catering to a combined clientele of professional builders and retail consumers); and our merchandise assortment, unique because it includes products like home electronics and lawn and garden supplies."

"Quite frankly," Wyatt resumed, "I think the home centers and building supply stores are starting to evolve into some other formats. We're beginning to see some stores abandon building materials because they cannot compete in the commodity business, and they will emerge as home fashion stores. Then there are other kinds of specialty stores, like lawn and garden stores (which I think we all would agree will be the next specialty growth area in the country). I predict that by 1990, one of the interesting things we'll see is a resurgence of the traditional lumber store as a specialty store."

"I couldn't agree more," said Don, "and I don't think that our industry has put enough emphasis yet on specialty retailing."

Jack added, "If you can bet on anything in marketing, you can bet that as a market grows, it will segment. Look inside some other kinds of retail operations: they've segmented within the store. That's how they've fought against the specialists. They've got boutiques here and there; they've created special environments within the store."

"By the end of this decade," Wyatt continued, "home centers will be becoming the department stores of this industry. They're no longer really the specialty stores that they were originally (and correctly) categorized as being."

"We classify Lowe's as a 'specialty retailer and upscale discounter,' " Cliff noted.

Wyatt said, "By 1990, at one end of the market will be the very good chains, among which I would certainly include Lowe's, Payless Cashways, and Hechinger; at the other end will be the specialty chains; and in the middle, the little home centers will have a very rough time competing. On the super-specialty side, the big players may not even have emerged yet, but in the home center field, the big players now will still be there in 1990."

Finally, Leonard articulated the goal of Lowe's positioning strategy: "There are some retailers that you speak of as a group, and others that you tend to mention separately. We have always tried to make Lowe's a company that gets mentioned by name — one that people think of in a category all its own."

Here's looking at us
1985 in review

Management

It was a building year for Lowe's management team. In sports, a building year is when fresh young athletes move into the starting lineup and the whole team takes on a new configuration. Roles and responsibilities shift as players learn each other's strengths and foibles, and gradually (if they've got the right stuff) the group of individuals begins to move confidently together as a cohesive, aggressive unit.

In 1985 President Leonard Herring named Wendell Emerine to be Executive Vice President of Sales, Store Operations, and Merchandising. Dwight Pardue became Senior Executive Vice President of Real Estate, and Harry Underwood was made Senior Vice President of Finance, and Treasurer.

The new titles only begin to imply the structural improvements that underlie them. Lowe's recent rapid growth had begun to strain the old lines of accountability and communication. So many demands were being made on our various groups within their own areas of specialization, that they had no time or opportunity to develop good teamwork.

"Merchandising people were working to develop a world-class merchandising group, and the operations and sales side was running to keep ahead of the competition and to structure programs for our expanding markets," says Wendell Emerine. "The missing element was direct communication between these two important functions."

"Mr. Herring provided me with the opportunity to bring the two together at the same table. Now every single week, merchandising and operations people meet on Monday morning to discuss how to solve problems or take advantage of opportunities as a team. Merchandising people talk about an upcoming program and all of a sudden you see the eyes of the operations people light up, because they're understanding what kind of thought got the program this far, and what their own role will be in furthering it."

Dick Griffin, new Senior Vice President of Sales and Marketing, confirms. "It used to be an 'Us versus Them'

Wendell Emerine, Dwight Pardue, and Harry Underwood in small town America.

Wendell Emerine's team of managers in their "Team Lowe's" tee shirts. They are from left (front) David Shelton, Dick Griffin, Bob Swanson, Bob Tillman, (back) Ron Perry, Bill White, Charlie Taylor, and Wendell Emerine.

situation, but there aren't any of 'Them' anymore."

"We now have some of the best support systems in the retail industry," agrees Harry Underwood. "We've streamlined procedures and policies while providing efficient services, controlling corporate assets, and maximizing our returns."

"It's the strongest organization we've ever had, both in the stores and in management," says Dwight Pardue, who brings extensive store operations experience to his new position at the helm of the real estate department, and represents a new company commitment to expertise in this dynamic and capital-intensive area.

David Shelton, who had been a store operations analyst, is the new Vice President of Training and Pricing. Although his job title unites two seemingly disparate functions, David does see a common thread running through his various duties, which include store operations analysis, customer relations studies, and statistical analysis related to Lowe's pricing policies.

"The functions that I oversee are service-related," David says. "Lowe's recognizes that of all the things that influence consumers, nothing is more important than customer service, both in terms of having trained employees and in terms of attractive pricing. The goal that we've established, 'care of our customers,' is more attainable from my point of view now that merchandising and sales functions are working together as a team."

Lowe's has always had an excellent record of employee retention, enabling us to expand and grow without draining our human resource pool. "Our average store manager has been with Lowe's 14.9 years and is 39 years old," says Wendell Emerine. "So even if our store base grows at 5% per year, we'll have the skilled personnel to handle it."

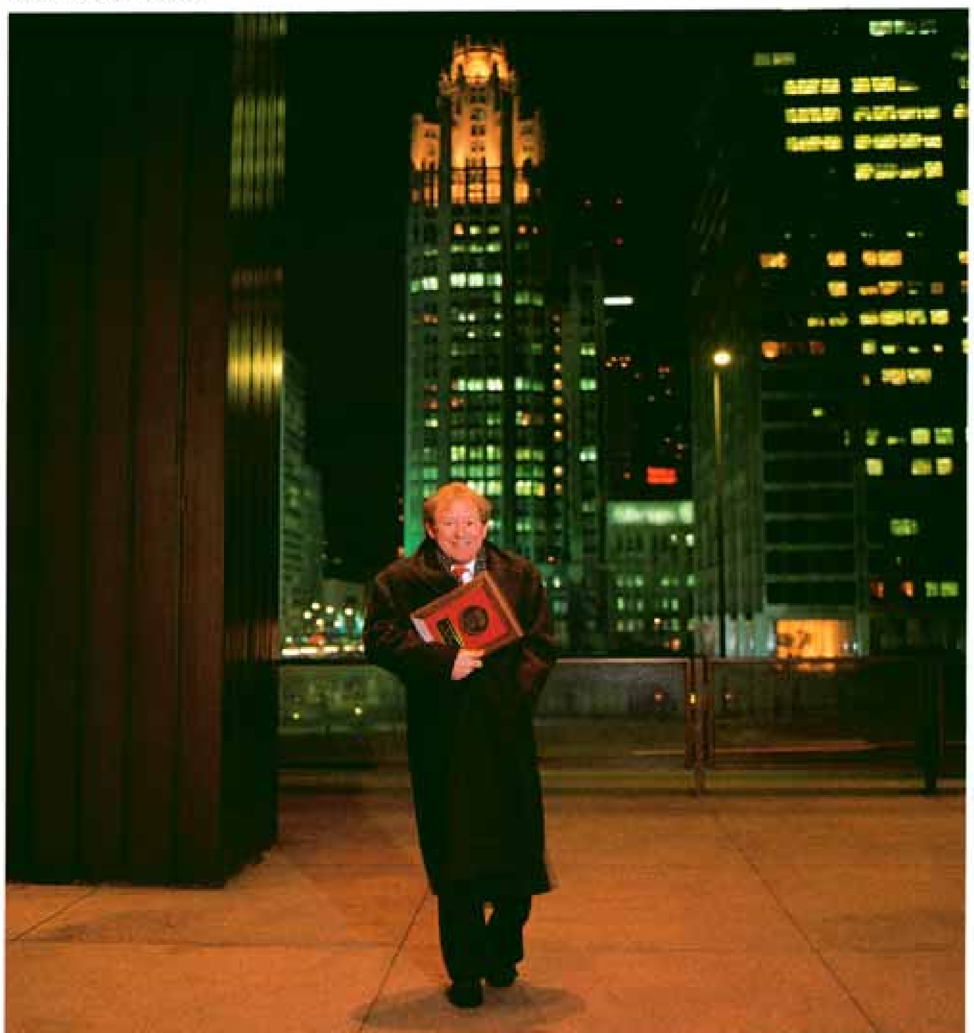
"The challenge has been to chart a

distinct career path that our talented employees could look forward to. So we restructured the field to support the store operations people. We created twenty-one area managers who are each responsible for about fourteen stores, and they report to the regional vice presidents. Now there is a set of career stepping stones, and it's our commitment to our people that Lowe's will continue to grow so there will be more opportunities above the area level. 'Cause you just can't quit there."

If integrating the management structure and promoting from within the organization strike you as sound business ideas, then you're in good company. Professor Walter Salmon includes them in his list of the hallmarks of enduring retail success (see page 4).

Another aspect of the building year was the creation of a framework for the new program known as TLC (for Team Lowe's Commitment). In 1985 we issued an invitation to the public to come into our stores as if they were visiting our homes. We decided that if we wanted them to keep coming back, we had to clean up our act and offer first-class hospitality. So, as Wendell Emerine says, "We cleaned up our buildings, we cleaned up our trucks, and we cleaned up our people by putting them in distinctive and professional uniforms. And we paid for it; we spent some extra money in '85. But now we're ready for the future. We've decreed that 1986 is the Year of the Customer at Lowe's. That's the TLC commitment: that Lowe's customers come first."

Jim Lyall of design services with one of four Home Center of the Year awards he picked up at the Chicago Home Center Show.



"Unfortunately for us," says Wendell Emerine, "we at the general office don't often get the pleasure of meeting the customer face-to-face. Our main task is to be supportive. We want the general office spirit to be 'You're in the game and we're back here cheering you on, and we're going to do whatever is necessary for you to be successful.' Then once every quarter we'll have a luncheon and open forum for field people to tell us how to do our job better in support of total customer service."

With so many lines of communication open, with new career paths charted, and new incentives spurring employees to high achievement, the Year of the Customer may incidentally turn out to be the Year of the Employee as well. But then, employee satisfaction is a proud tradition at Lowe's. We have a high retention rate compared to most home center chains, and we intend to keep it up. Recently, Lowe's received an unsolicited endorsement in a book called *The 100 Best Companies to Work For in America*, by Levering, Moskowitz, and Katz. Dick Griffin says that what keeps him a happy employee is simply, "Here I have the opportunity to see what needs to be done, the authority level to make a decision about it, and if I make a decision I can see it implemented before the week ends."

Merchandising

A is for Apple, B is for Billions — $2 billion in sales in 1985, an unprecedented accomplishment in our area of specialty retailing. But we're not inviting comparisons to any other home center chain: comparing apples to oranges isn't fair to either one. We are just proud to have reached the unique position we're in today. We are mindful of how we got here, and we are determined to keep Lowe's the apple of our customer's eye.

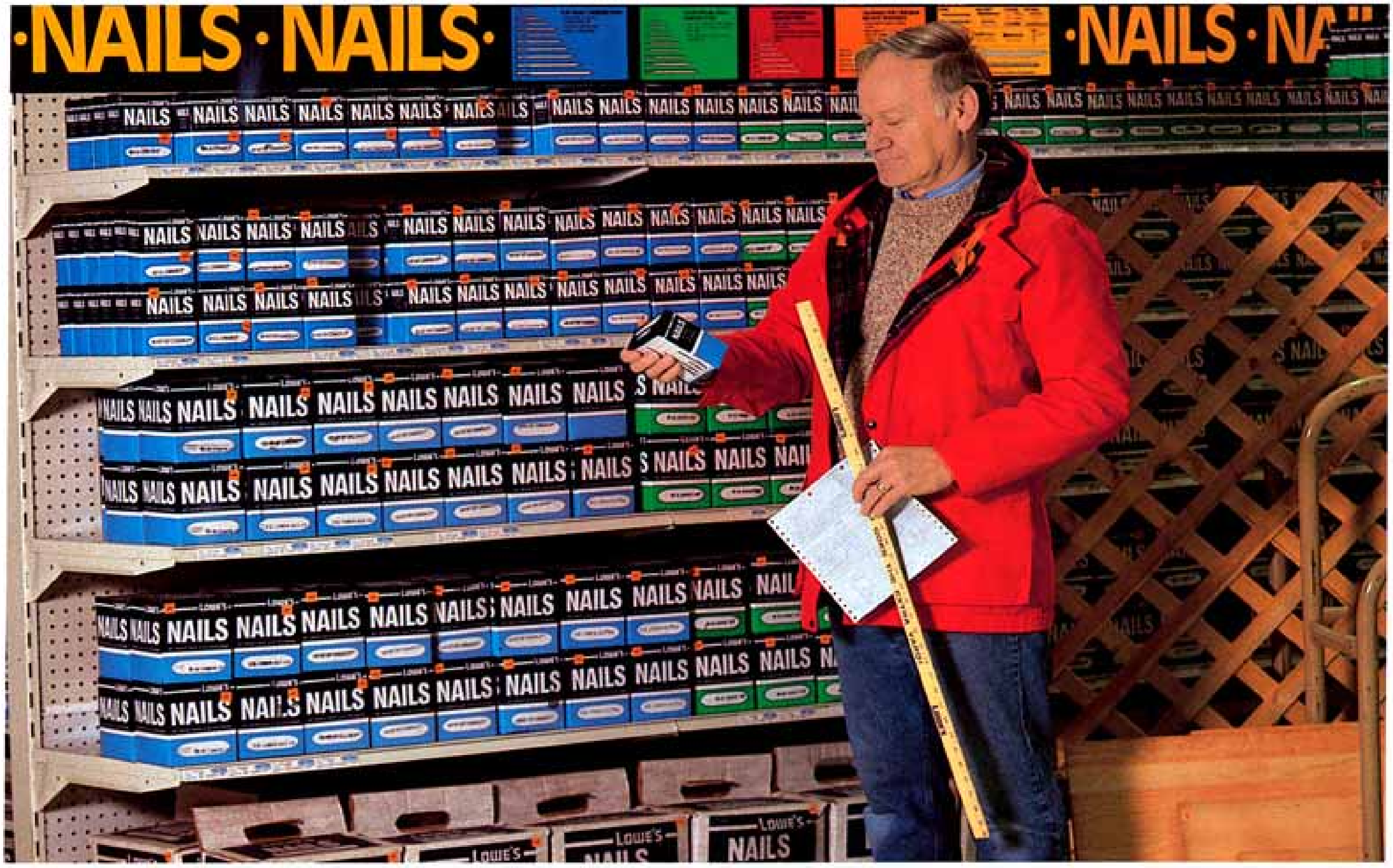
Our merchandising strategy is to continue to grow as a highly profitable, world-class, consumer-directed organization. All our merchandising efforts are aimed at satisfying our customers while making a profit. We can't expect to achieve that by sitting under the apple tree waiting for merchandise to come to us. So we're out beating the bushes, staying on top of developments in our many diverse product areas, searching this country and overseas as well in order to offer Lowe's customers the best value at the best price.

In 1985, for the second year in a row, Lowe's buying staff won top performance ratings from industry manufacturers in a survey conducted by *Home Center* Magazine. Lowe's merchandisers were voted most professional, most knowledgeable, and most accessible, with the best understanding of the vendors' companies and the best record of follow-up on sales programs. This year Lowe's was also voted most receptive to new programs, and we tied for first in the ranking of "tough but fair" negotiators — up from a fourth-place finish last year.

Bob Swanson, Senior Vice President of Merchandising, says the improved ratings were hard-won. "We took last year's results to heart, and brought in an outside consultant to help educate us about ourselves. The consultant did a personality profile on all our buyers, and gave them some feedback so that they knew what personal traits they were taking into negotiating sessions — how open they were, how forceful, what blind spots they might have.

"Then we aimed at developing a win/win situation with our suppliers. If you see the buyer/seller relationship as one in which the only way for you to win is for him to lose, then you've got a problem. And if you listen to what sources say

The Lowe's merchandising staff at the Home Center Show. Left to right are (front) Bob Cannon, Bob Swanson, (back) Lee Herring, Vaughn Hayes, Greg Wessling, Jerry Edwards, and Bob Anderson. Not pictured is Ken Moore.



A do-it-yourself customer at one of Lowe's mass product displays.

about some of the retailers in our industry, that's all you hear.

"Bob Strickland has coined a phrase that I think makes a lot of sense, and that is 'partners-in-interest.' We are partners-in-interest with our vendors. If a vendor doesn't feel that he can gain by being marketed through Lowe's, then we've failed somewhere. More and more, manufacturers aim to be marketed through top retailers. The more we're recognized as being a top retailer, the greater our negotiating advantage will be."

There are several retailing steps between the buying conference and the customer check-out, but along the way we never lose sight of our primary goal, which is to satisfy the consumer by offering the right product at the right price. To do that we use our centralized buying power to leverage costs, we constantly fine-tune our product assortment to be more meaningful to our customers, and we offer our products at "Lowe's Low Prices" every day. If these are "hallmarks of enduring retail success," as Professor Salmon has indicated (see page 4), then we must be on the right track.

Lowe's has always been an innovative merchandiser whose product assortment defied traditional categorization. We were a discounter of building materials from the word "Go," bypassing wholesalers to sell at low prices to home builders of the Fifties. But we sold "white goods" — that is, home appliances — even before lumber, so retailing has always been part of our business and we've always been customer-oriented.

1985 was the greatest year for sales in Lowe's history, and continued the shift toward retail dominance in total sales volume. Our goal is to dominate in the variety, depth, service, and price of building supply items, while continuing to develop the consumer product lines that have accounted for so much of our sales increase. Home electronics, bath products, tools, and garden supplies are growth areas that we are carefully nurturing now. For example, in 1985 we introduced the garden center concept, and it was so successful that by the end of 1986 roughly 260 Lowe's stores will have garden centers.

Nationally recognized brands have always been the main focus of Lowe's merchandising programs, and recently we've added such major brands as Kohler, Maytag, Wheelhorse, and Sony. But while national brands remain the core of our sales programs, our leading edge efforts are to develop Lowe's private label merchandise to offer five-star values at four-star prices. Says Bob Swanson, "While brand is important, there are categories where I think that Lowe's name or Lowe's market position is even more important. When we added Lowe's label to our paint line, just below Enterprise (a very strong company), the Lowe's brand took off immediately.

"The store itself has become so important — the atmosphere in which our customers shop. It has to be creative, exciting, and to give them ideas about how they can put things together. We control the presentation of the products, and I think we have to keep our stores constantly changing. Our challenge is not to keep pace with our competition, but to keep pace with our customers!"

Jim Lyall, Vice President of Design Services, certainly did his share to keep pace this year. His designs for Lowe's stores (interior and exterior), displays, and special departments won four Home Center of the Year Awards from *Home Center* Magazine. Two more awards went to H.C. Poythress of Sterling Advertising, making Lowe's the first retailer to win in all of the program's six categories.

The borders of Lowe's Land have changed and expanded over the years, but we haven't forgotten our small town roots.

Women, the primary decision makers for home decor products, find a colorful and exciting selection at Lowe's.


SCH (6249) 270-9277
TRANS:REGULAR
SALE
PRICE
EA 1PK SOFT
EA D SOCKET
POLY
STEREO CASS
IBM

On the contrary, small town America is our chosen niche — it's what we are, and whom we know best. In the small towns of Lowe's Heartland our competition for market share is not the big warehouse retailers but single, family-owned stores. Because of this, the Lowe's apple will continue to grow in small town America while the "oranges" get squeezed dry in crowded metropolitan markets.

Store clustering is a concept whose time has come for Lowe's, and we are implementing it now with the help of our expanded computer systems (see page 17) and our central distribution facilities (see page 18). Clustering is the grouping together of stores that naturally fall within a certain geographic and marketing area. Classic retail clustering has traditionally meant number of stores in a discreet market, such as our four in Nashville. However, other forms of clustering are possible for the opportunistic and imaginative. For instance, one cluster consists of Lowe's stores in the towns of North Wilkesboro, Boone, Sparta, Mount Airy, and Winston-Salem, North Carolina. Though separated from each other by as much as fifty miles, they are in one general media market, and the stores have long cooperated with each other to fill customer requests for out-of-stock items. Now all the stores within a cluster will communicate with each other by computer, sharing inventories, price information, and accounts receivable. Through store clustering, we will be even more able to tailor our product assortments appropriately, promote them efficiently, and offer better service to our customers.

Information systems

A recent discovery in North Wilkesboro unearthed the customized cash register that Pete Kulynych invented especially for Lowe's back in 1951. Though undeniably quaint and outmoded now, it is eloquent evidence of the company's historical willingness — even eagerness — to experiment with hardware and software in order to get recording systems suited to Lowe's needs.

Lowe's was a pioneer of computers in retailing. As early as 1956, Carl Buchan hired a specialist from the textile industry to develop a punch card system for Lowe's inventory control. Dependent at first on manual processing, it evolved over the years and culminated with the in-store computer system called Accusale. Installed for pro sales in 1973, Accusale recorded merchandise movement and customer accounts, and also facilitated billing.

Lowe's sales have grown many fold in the dozen years since Accusale first went on-line, and in true Twentieth Century fashion, to paraphrase Lord Byron, "We awoke one day to find ourselves outmoded." Although Accusale was still head and shoulders above what passed for computerization in many segments of our industry, it was no longer on the cutting edge of technology adaptable to our needs. So in 1985 we began installing in our stores a completely new system of hardware and software. The computer system is called IBM Series I, and it is an integrated "single vendor" computer system rather than a system of components from several different makers. Flexibility, efficiency, and economy are major benefits to be derived from this modern integrated system.

The accompanying new cash register system comes from NCR, and it also represents an increase in flexibility and efficiency. Our Accusale system had always included a price lookup capability at our service desk, but now that capability is available at every cash register checkout station. This new point-of-sale system can also function independently of the IBM when necessary.

New NCR registers combine with Series 1 to speed transactions.

"We are bringing into the general office some of the largest and newest computer equipment that the IBM Corporation provides for users," says Frank Dooley, Vice President of Information Systems. "On the mainframe side we are centralized: we have a state-of-the-art dual mainframe and state-of-the-art software to run it. Most of our software is developed in-house by our own people, but we also purchase some from the field.

"We've now provided the user at Lowe's headquarters with capabilities to access and use information in an on-line environment. That's probably one of the biggest things to happen at Lowe's in the last two years. It means that the buying group, the sales group, and the financial group have constant access to current information."

To date, thirty-five stores have been outfitted with Series I hardware and the first part of the accompanying software. In 1986 Series I will be installed in seventy-five "conversion stores" (where the new system replaces Accusale) plus in all stores built or retrofitted in 1986. The remaining locations will be converted in 1987.

And what does Lowe's stand to gain from that investment? "Improved service," says Frank Dooley. "Improved information service to Lowe's internally, and faster service to the customer.

"Series I is geared toward quick transaction processing. With our old system we were limited to a certain number of customers per day and per hour, and when equipment was inoperative we had to revert to a manual operation. With Series I and the NCR system we have some redundancy that allows a store to handle a large volume of customers, and we have backup capabilities."

That's one way in which Series I helps Lowe's serve customers better. Another way is by helping to implement our store clustering concept. All the stores in a particular cluster can communicate with one another, so we can centralize inventory. That means improved customer service, because if we don't have an item in one store, we can tell the customer immediately if we've got it only twenty miles away.

One by-product of keeping clustered stores in touch by computer is that more merchandising information can go "up the pipe" to the folks who chart prices and track the success of new products — as Frank Dooley says, "All the competitive information that our merchandising staff needs to be more efficient in product management.

"Series I will be successful because we've tried not to let the computer be the dominant factor in how Lowe's operates. You'll hear people at a lot of companies say, 'Well, we'd really like to operate this way, but we can't because our computer won't work like that.' At Lowe's we've taken the opposite approach and asked first, 'How do we want to run this business?' Then we've provided the computer hardware and software. It's a support function, and we haven't let the tail wag the dog.

"I guess probably the most exciting thing to me is when we provide a level of creativity and install it, and it does work, and one day we hear a store person say, 'Boy, that's a great system! Without it, we couldn't have handled the customer load.' When that kind of feedback reaches me, I'm proud that our group has played a part in serving the customer.

"Of course, we're not the only retailer with a state-of-the-art system. J.C. Penney has one. So do Dayton Hudson, Wal-Mart, Federated, and Sears; there are others, too. Theirs have been successful for them, ours will be successful for us."

New warehouse design at Richmond, VA store.

Distribution

No great conqueror worthy of the name has ever advanced very far without giving due consideration to the problem of getting supplies to his front line. Likewise, Lowe's could not expand and grow in units and sales without developing a plan to keep our stores supplied efficiently.

Like Professor Salmon (see page 4), we have always believed that the use of distribution centers assures better inventory management and lower freight costs than shipment directly from manufacturers to stores. As we have grown, therefore, we have built three regional distribution centers to service our stores.

We located our first two DC's in North Wilkesboro (385,000 square feet) and Hernando, Mississippi (187,000 square feet). Our third and newest DC is just outside Atlanta in Villa Rica, Georgia — a site carefully calculated to minimize distances and costs of delivery to markets farthest from the other two facilities. At 397,000 square feet, the Villa Rica distribution center carries more than 10,000 non commodity items totalling more than $25 million in inventory. Opened in June 1985, it serves Lowe's stores in Georgia, Florida, Louisiana, Alabama, and parts of Tennessee.

It is difficult verbally to convey an impression of the size of our distribution centers, but the photograph on page 19

One of the many aisles in the high bay area of our Villa Rica distribution center.

gives at least a general sense of the vastness of the Villa Rica DC. The single aisle shown contains more than fifty-seven trailer loads of merchandise, and there are thirty-two such aisles in the high bay area of the facility.

As Lowe's stores become larger, their profitability depends more on reducing overhead by taking more products through our distribution centers. "Next to the actual cost of goods, our greatest expense is distribution — getting the merchandise into our stores," says Ron Perry, Vice President of Distribution.

"The key to future success will be to minimize transportation and inventory costs. Our DC's now reduce store labor costs and increase emphasis on sales and service. We've developed a highly efficient method of prepricing merchandise: up-to-the-minute price labels are applied to items as they are picked for shipment to the stores. This prepricing program eliminates more than 300,000 man-hours per year."

On a cost-of-inventory basis, the amount of products being distributed through our DC's has increased around 40% in each of the past three years, as Lowe's has added merchandise to our product assortment in order to keep pace with our retail customers' high expectations.

By buying merchandise in truckload quantities, then redistributing products in smaller loads from the DC's to our stores as needed, we make it possible for the stores to capitalize on Lowe's considerable buying clout and freight rate advantage. Nevertheless, when the situation warrants Lowe's will make a direct buy and have the supplier send the goods to the stores. Flexibility and responsiveness: these are keys to efficient distribution, and they are qualities that we cultivate in every phase of Lowe's operations.

Stores and expansion

In a 1981 seminar on retailing, Carol Farmer, a noted retailing consultant, stated that a store is the "physical expression of the business concept." The truth of that statement is a determining force in where Lowe's locates its stores, how we allocate our space, and what our sales floors look like.

Back in 1971 we said in our annual report that "Each [Lowe's] store combines the merchandise, service, and functions of a lumber yard, a building materials supplier, a plumbing, heating, and electrical supply center, a hardware store, an appliance and home electronics dealer, and a home hard goods discounter." Fifteen years later the basic tenets of our marketing concept remain the same, but our stores have changed drastically. The reason is that within each of those product categories exists a wide range of possibilities for service, inventory assortment and depth, and type of shopping atmosphere. Careful attention to the preferences of the customer in each of these areas dictates when and how we make changes. The difference between the Lowe's store of 1971 and Lowe's store of 1986 is the difference in customers and their preference.

Sales analysis: comparable vs new stores
Dollars in millions

	1985	1984
Stores open at end of year	282	248
Percent change total sales	**+23**	**+18**
Total sales	$2,072.6	$1,688.7
Number of comparable stores	248	238
Percent change comparable store sales	**+10**	**+17**
Sales of comparable stores	$1,857.4	$1,672.0
Sales of comparable stores previous year*	$1,688.7	$1,426.8
Number of new stores	38	10
Sales of new stores	$ 215.2	$ 16.7

*The company has closed ten stores since Fiscal 1978: one each in May, 1979; September, 1979; January, 1980; June, 1980; two in January, 1984; and four in January, 1986.

Sales floor size and productivity
Dollars in thousands, except sales per square foot

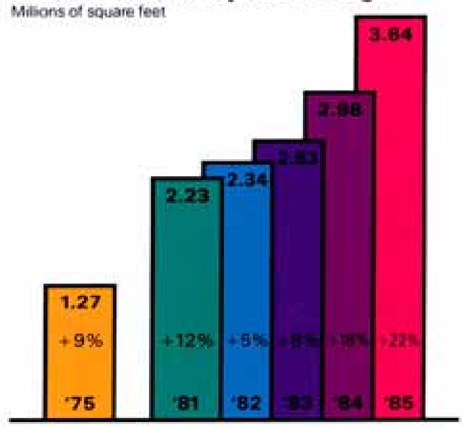
	1985	1984
1. Stores open at end of year	282	248
2. Weighted average stores open during year (1)	273.3	240.5
Average sales floor size		
3. Total sales floor square footage, end of year	3,641,762	2,980,000
4. Average sales floor size, end of year (2)	**12,914**	**12,016**
5. Weighted average sales floor square footage during year (3)	3,406,684	2,722,701
Sales results		
6. Total sales	$2,072,569	$1,688,738
7. Retail sales	1,087,411	880,924
8. Pro sales	985,158	807,814
Sales per square foot		
9. Total sales per square foot (4)	608	620
10. Retail sales per square foot (5)	**319**	**324**
Average store sales		
11. Total sales per average store (6)	7,584	7,022
12. Retail sales per average store (7)	3,979	3,663
13. Pro sales per average store (8)	$ 3,605	$ 3,359

(1) 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.
(2) Line 3 divided by line 1.

In 1979 we radically changed our store design. The new do-it-yourselfers wanted more information, and the new numbers of women customers demanded a better atmosphere and sales floor organization than was usually found in a hardware store. Our RSVP program provided an organized sales floor, better point-of-purchase information and department identification, and a highly visible centralized sales/service area.

In the 80's we find that our do-it-yourself customers have become more knowledgeable and more pressed for time. They still want service, but they want to easily find what they need for themselves, pay for it, and be on their way. They don't want to ask a salesperson where it is, and if it's a small item they don't want to have to go to the loading dock to get it. Our response has been to enlarge our stores. Our current prototype is triple the size of the prototype of 1979. The new stores have a larger product assortment, but they also have merchandise displayed in quantity to allow customers to get it and go. Front-end checkouts process transactions quickly, and personal service on a department-by-department basis allows for specialized, in-depth information.

Growth in retail square footage
Millions of square feet



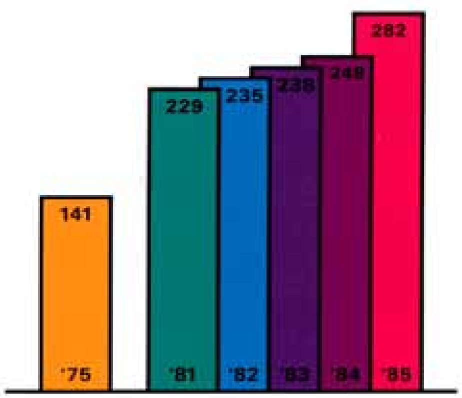
1983	1982	1981	1980	1975
238	235	229	214	141
+38	**+16**	**+1**	**−2**	**+12**
$1,430.6	$1,034.0	$888.0	$883.6	$388.3
235	229	214	208	125
+38	**+15**	**−1**	**−3**	**+4**
$1,428.1	$1,020.9	$875.9	$871.1	$360.3
$1,034.0	$ 888.0	$881.6	$902.0	$346.3
5	6	15	6	16
$ 2.5	$ 13.1	$ 12.2	$ 12.5	$ 28.0

1983	1982	1981	1980	1975
238	235	229	214	141
235.6	232.2	216.0	211.9	131.5
2,529,040	2,337,351	2,232,008	1,998,239	1,268,124
10,626	**9,946**	**9,703**	**9,290**	**8,994**
2,423,382	2,281,249	2,051,244	1,963,385	1,193,626
$1,430,576	$1,034,032	$ 888,042	$ 883,614	$ 388,254
723,585	570,744	461,212	419,775	165,438
706,991	463,288	426,830	463,839	222,816
590	453	433	450	325
299	**250**	**225**	**214**	**139**
6,072	4,453	4,111	4,170	2,953
3,071	2,458	2,135	1,981	1,258
$ 3,001	$ 1,995	$ 1,976	$ 2,189	$ 1,694

(3) Line 4 current year, plus line 4 prior year, divided by 2, multiplied by line 2.
(4) Line 6 divided by line 5.
(5) Line 7 divided by line 5.
(6) Line 6 divided by line 2.
(7) Line 7 divided by line 2.
(8) Line 8 divided by line 2.

Here's looking at us
1985 in review

Growth in total number of stores



1985 was a year of testing and direction-setting for the next half decade of Lowe's growth and expansion. This is what we see for the future:

Lowe's will grow aggressively in units and square footage. Expansion in 1985 resulted in a growth of 14% in the number of stores and 22% in our sales floor footage. Confidence in our store prototypes and expansion strategy leads us to pursue thoughtful, consistent, and aggressive expansion.

Our new store in west Richmond, VA has a 30,000 square foot retail sales floor.

We will grow and build our stores to suit our marketplace. In 1985 the company developed a "family of store prototypes" that will carry us into the 90's. The three prototypes are 16,500 sq. ft., 26,400 sq. ft., and 33,000 sq. ft. of retail sales floor. They are designed to be easily and inexpensively expanded as the market (and our market penetration) grows.

We will maximize the sales potential of our current stores through sales floor design. The RSVP sales floor design is now in place in more than 80% of our stores. The remaining stores include those recently acquired from Boise Cascade, a number of which are presently being remodeled.

An equally important program, called Lowe's Super-Retrofit, began in 1983. Many stores, having reached the sales potential limit of their sales floors, are being expanded on-site. This expansion, generally from an average 11,000 sq. ft. to 25,000 sq. ft., offers an excellent return on investment. In 1985 the company super-retrofitted eight stores for a total increase of 113,000 feet in some of our best markets. In 1986 twelve super-retrofits are scheduled, and this pace can continue through the decade.

One result of the super-retrofit program and our large new store program is that Lowe's now operates fifty stores larger than 20,000 square feet and more than 42% of Lowe's total square footage is in sales floors larger than 20,000 feet.

Lowe's will take advantage of acquisition opportunities. In 1985 for the first time we expanded our chain through a major acquisition. We acquired twenty-five units from Boise Cascade Corporation. These units, in Texas and Oklahoma, began the transformation into Lowe's stores during 1985. These stores are now beginning to receive the Lowe's product line. All of them have been equipped with our on-line point-of-sale and inventory control systems, and are selectively receiving facility expansion.

In our fragmented industry, Lowe's good experience with this acquisition will enable us to grow through this method again opportunely and confidently.

We will continue to direct the bulk of our expansion at favorite market targets: towns and cities of small and medium size. Our love affair with these markets continues unabated, and we have been rewarded for our fidelity with high returns on investments in these markets.

We will profitably leverage our position in larger markets. Lowe's does operate in a few larger markets such as Washington, Charlotte, and Atlanta. In these select markets where we have an established image, we will take the opportunity to "cluster" and leverage our presence.

Lowe's will passionately pursue growth through greater productivity. One of the effects of adding a large chunk of square footage in one year is the impact on sales floor productivity of these sales floors in the coming years.

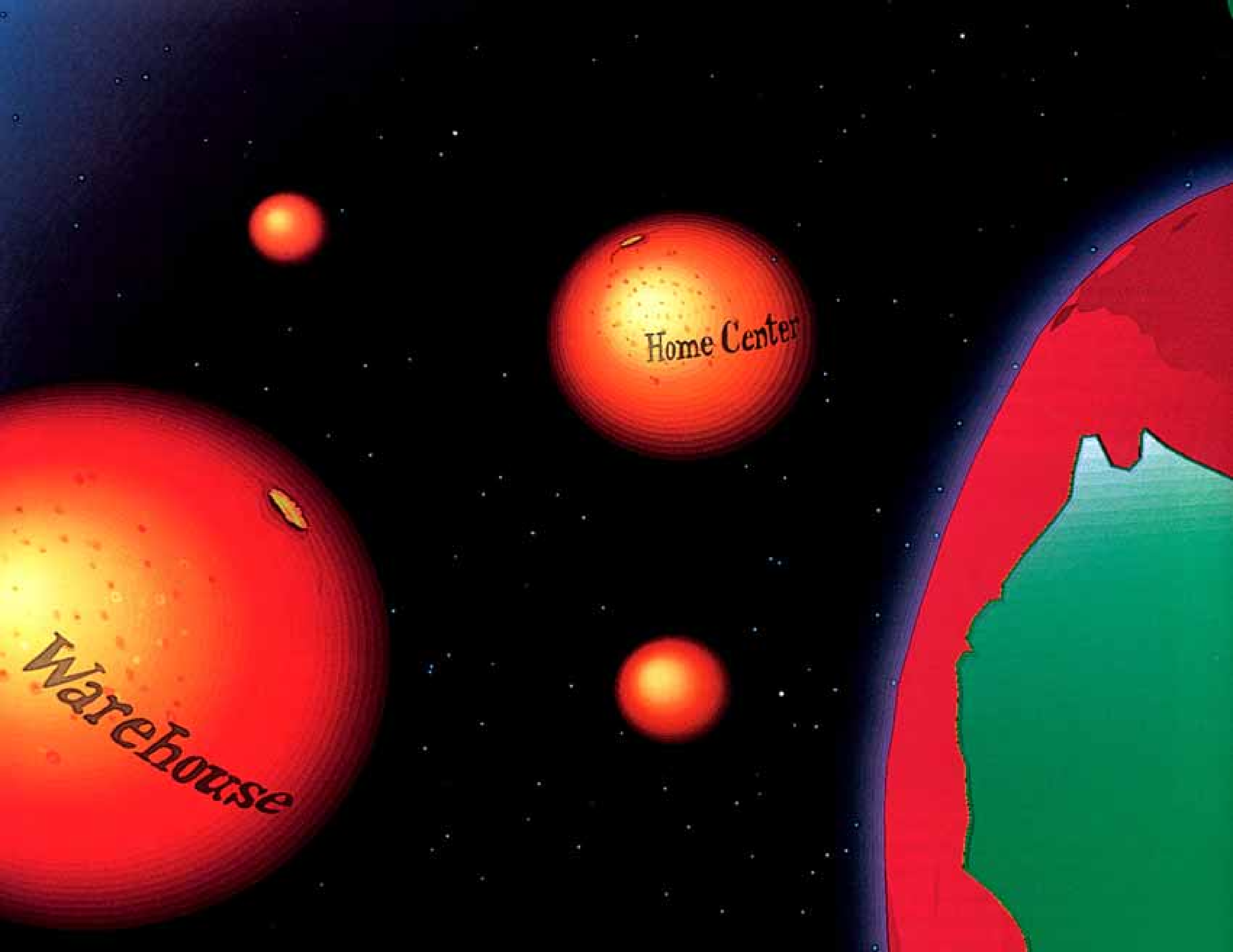
We will continue to experiment with different approaches to store placement, design, and expansion as long as customer preferences continue to change — which they always will. In 1985 the company experimented with a large store designed without a lumber yard, a professional sales and delivery concentration center to consolidate multi-store operations in a large market, and a small commodity-oriented professional sales yard in a small high-growth community. These and other experiments will continue through 1986 and beyond.

Developing our ability to serve customers is an ongoing quest. Any company that fears experimentation or rests on its laurels will soon be left to watch as an industry and a generation of customers move away. Over the last five years, Lowe's has invested heavily to develop a wide range of alternatives. We have developed the storing capability to dominate our markets of choice, small town America; to expand through acquisition and prototype store growth; and to grow by new stores in new markets and by expanding our presence in existing markets. We will not be left watching. We look forward to accruing the benefits of our opportunities in the coming years.

Store sales review. Lowe's carefully tracks some store productivity figures and analyzes them weekly, monthly, annually and, yes, daily. For the year 1985, Lowe's total sales per average store increased from $7,022,000 per store to $7,584,000 or 8% (see chart page 20). Retail sales per average store edged higher with $3,979,000 in 1985 versus $3,663,000 in 1984 or a 9% rise. Pro sales gained ground and increased 7% from $3,359,000 to $3,605,000 per store in 1985.

These sales gains per average store include the former Boise Cascade stores which during most of the year had few of the merchandising programs or operational systems common to a typical Lowe's store. These 1985 figures also include sales volumes from the four units that the company closed in Houston during fiscal 1985. Excluding the former Boise stores and the Houston area stores, average store total sales increased 10%, the average retail sales increased 14%, and the average pro sales increased 5%.

Lowe's super-retrofitted store in Hendersonville



Lowe's store locations

Current stores at end of fiscal 1985 are represented by white dots on the map. Yellow dots indicate relocations, retrofits, and new stores for 1986.

State and number of stores

Alabama	10	Kentucky	14	Oklahoma	6
Arkansas	8	Louisiana	13	Pennsylvania	7
Delaware	2	Maryland	7	South Carolina	20
Florida	15	Mississippi	7	Tennessee	19
Georgia	25	Missouri	1	Texas	23
Illinois	1	North Carolina	54	Virginia	28
Indiana	6	Ohio	7	West Virginia	9

21 states, 282 stores

Relocations and retrofits for fiscal 1986

Albany, GA	Greensboro, NC (north)	Myrtle Beach, SC
Charleston, SC	Gulfport, MS	North Wilkesboro, NC
Charlotte, NC	Hickory, NC	Orlando, FL
Charlotte, NC (north)	Jonesboro, AR	Salisbury, MD
Fredericksburg, VA	Lynchburg, VA	Statesville, NC
Gainesville, GA	Macon, GA	West Columbia, SC

New stores for fiscal 1986

Barboursville, WV	Columbia, TN	Matthews, NC
Bluefield, VA	Fort Myers, FL (south)	Raleigh, NC (north)
Bradenton, FL	High Point, NC (north)	Salem, VA
Carrollton, GA	Knoxville, TN (north)	Sarasota, FL
Churchland, VA	Lake County, FL	Taylors, SC
Columbia, SC (northeast)	Lake Wales, FL	Westgate, SC

Product Analysis

In the past five years, each category of Lowe's merchandise has attained an annual compound growth rate of more than 14%. The average gain has been 19%. In order to examine sales trends we have divided our lines of merchandise into nine major product groups. The merchandise sales trend table shows sales results by product category, 1980–85, with the inclusion of 1975 as an historical reference point.

Structural lumber: dimensional lumber, framing, studs, joists, posts, boards, and treated lumber.

Building commodities and millwork: roofing, gypsum, insulation, cement, masonry, plywood, siding, nails, polyethylene, doors, windows and moldings, door and window hardware.

Home decorating and illumination: paint, paneling, floor coverings, wall coverings, window coverings, cabinet hardware, light fixtures, electrical fittings, switchgear, bulbs and chimes.

Kitchens, bathrooms and laundries: refrigerators, dishwashers, freezers, ovens, microwaves, sinks, kitchen cabinets, counter tops, disposals, trash compactors, medicine cabinets, vanities and tops, plumbing fixtures and tile board, washers and dryers, and home care safety products.

Heating, cooling and water systems: water heaters, pipe, fittings, pumps and tanks, room air conditioners, ceiling fans, central heating and cooling, fireplaces and accessories.

Home entertainment: stereo equipment, color and black and white televisions, radios, video tape equipment, telephones, communication product accessories.

Recreation, yard, patio, garden and farm: bicycles, wheel goods, lawn mowers, tillers, gym sets, storage buildings, lawn care products, residential and farm fence, outdoor furniture and metal roofing.

Tools: power and hand tools, and accessories.

Special order sales: merchandise not regularly inventoried.

An examination of merchandise sales by category reveals that product groups primarily associated with retail sales and the do-it-yourself customer show the

Merchandise sales trends
Dollars in millions

	Total sales 5-year CGR	1985 Change from 1984	1985 Total sales	1985 %
Category				
1. Structural lumber	+17%	+20%	$ 364	18
2. Building commodities and millwork	+14	+17	664	32
3. Home decorating and illumination	+23	+31	239	11
4. Kitchens, bathrooms and laundries	+18	+16	197	9
5. Heating, cooling and water systems	+17	+12	104	5
6. Home entertainment	+33	+32	78	4
7. Recreation, yard, patio, garden and farm	+26	+39	163	8
8. Tools	+36	+56	56	3
9. Special order sales (SOS)	+22	+29	208	10
Totals	**+19%**	**+23%**	**$2,073**	**100**

*1975 categories not directly comparable to 1980-85 categories.
In 1975 mobile homes accounted for $3 million in sales, 1% of the total.

most significant growth. This both explains and reflects Lowe's concentration on enhancement of the shopping environment for our retail customers. Tools had the largest percentage sales gain with a 56% improvement over 1984. Approximately 84% of these sales were to retail customers. The recreation, yard, and garden category experienced a 39% sales increase. An estimated 91% of the products sold in this category were purchased by retail customers. A product group on the rise, home entertainment, doubled its percent of growth from last year and increased in terms of total sales. Special order sales, representing merchandise not stocked in the stores, which were responsible for 10% of total 1985 sales, increased 29% over 1984. Structural lumber increased growth to 20% of total sales from 18% in 1984. Building commodities and millwork sales grew 17% to finish as 32% of total sales, down from last year largely because of price deflation in this area. An impressive advance of 31% over last year's sales was reported by home decorating and illumination, finishing as 11% of total sales.

One of the things that makes Lowe's unique is the inclusion of household appliances and consumer electronics in our product mix. During the last several years these product categories have grown well and are projected to continue to do so through the rest of the Eighties. Lowe's is prepared for the tough competitive environment that will exist in the consumer electronics industry throughout the period.

There is an underlying pressure driving the household appliance industry these days. During the early Seventies, high housing start levels were the norm. Now, ten to fifteen years later, the appliances placed in new homes of that growth era are wearing out. The replacement market is now responsible for the majority of appliance purchases in this country. Lowe's will be there with products to serve this replacement market through the remainder of this decade and beyond.

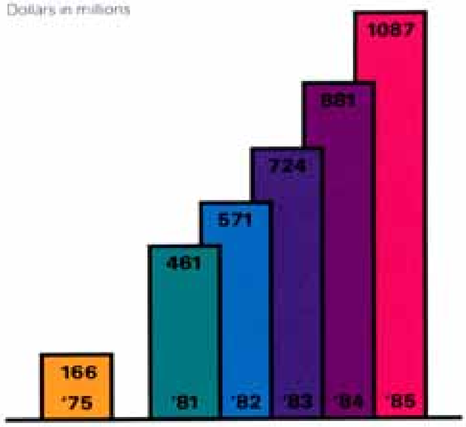
Home Appliance Life Expectancy

Dishwasher	11 years	Refrigerator	13 years
Washer	12 years	Stove	15 years
Dryer	13 years	Microwaves	11 years

In 1985 total sales increased 23% over 1984, when we experienced an 18% sales growth. Special mention should be made of a customer group which exerted a strong influence on our total sales statistics for 1985. The professional sales from the stores we acquired from Boise Cascade accounted for 77% of the total

1984		1983		1982		1981		1980		1975*	
Total sales	%	Total sales	%	Total sales	%	Total sales	%	Total sales	%	Total sales	%
$ 303	18	$ 270	19	$ 177	17	$ 157	18	$ 166	19	$ 64	16
567	33	493	34	357	34	316	36	338	38	180	46
183	11	149	10	117	11	92	10	86	10	—	—
170	10	142	10	105	10	93	10	87	10	24	6
93	6	85	6	69	7	62	7	48	5	38	10
59	3	51	4	34	3	23	3	19	2	11	3
117	7	86	6	69	7	56	6	51	6	28	7
36	2	25	2	17	2	14	2	12	1	—	—
161	10	129	9	89	9	75	8	77	9	41	11
$1,689	**100**	**$1,430**	**100**	**$1,034**	**100**	**$888**	**100**	**$884**	**100**	**$386**	**99**

Growth of retail sales
Dollars in millions



sales generated by those units. Retail sales from these stores are not up to Lowe's typical standard. However, there is opportunity for future retail sales growth because several of these stores are selectively in the process of being remodeled and remerchandised. It is worth noting that Lowe's professional sales increase of 22% chainwide in 1985 and our "pro business" was significantly enhanced by the blending of the professional sales from the acquired 25 units into Lowe's total professional sales. With this in view, our retail sales growth of 23% becomes even more impressive, and fully justifies our investment in developing retail sales as our primary business while keeping professional sales as our "plus" business.

Market Research

Our unique position as a specialty retailer to both do-it-yourself and professional customers constantly presents us with special opportunities and challenges. For instance, our pulse-takers in the area of marketing research must simultaneously monitor the heartbeats of two different markets, pro and retail. Sometimes they find that what makes one market's pulse race leaves the other unaffected; sometimes both respond to stimulus, but in different ways or at different rates. To keep them both healthy (and Lowe's as well), we prescribe an apple a day!

The Retail Market

Remember the gas crunch of the mid-Seventies? It may now seem like the dim and distant past, but we are living with its effects to this day. Take a look around any parking lot: the small, gas-stingy automobiles you see, whether domestic or imported, came in through the door of opportunity that was opened by soaring prices at gasoline pumps. From the models displayed on showroom floors to the items carried in automotive parts shops, the products, their names, their packaging and promotional messages were all affected in some measure by the increase in fuel costs.

Pertinent Retail Sales Categories
Dollars in millions, total U.S.

	1985 P	1990 E	5-Year real CGR
Building material & hardware stores	$ 63,686	$ 81,281	5.0%
Household appliances & radio/TV sales	28,284	39,855	7.1
Total Lowe's market potential	91,970	121,136	5.7
Total retail trade	**$1,377,862**	**$1,620,718**	**3.3%**

Source: *Monthly Retail Trade*, U.S. Department of Commerce; Management Horizons, A Division of Price Waterhouse
P=Preliminary
E=Estimated constant 1985 dollars
CGR=Compound Annual Growth Rates

Customer purchase trends
Dollars in millions

	1985	1984
Total sales	$ 2,072.6	$1,688.7
Percent change from prior year	+23	+18
Retail sales	**$1,087.4**	**$ 880.9**
Percent change from prior year	+23	+22
Percent of total	**52**	**52**
Pro sales	**$ 985.2**	**$ 807.8**
Percent change from prior year	+22	+14
Percent of total	**48**	**48**

Just as higher fuel costs spurred development of a fuel efficiency movement, so too the skyrocketing cost of home improvement and maintenance projects during the inflationary Seventies spurred rapid growth in the do-it-yourself market. We now have types of products, stores, and marketing techniques that were unheard-of only a decade ago. These provide great opportunities for the growth of Lowe's retail business — opportunities that should continue to unfold through the long-term future.

Since 1977 the national do-it-yourself market is estimated to have grown at an annual rate of about 11%, slightly more than the total durable goods sector and significantly greater than the rate at which total retail trade increased. Although many of the inflationary undercurrents of the late Seventies are no longer with us, do-it-yourselfers, like small gas-efficient cars, are here to stay. In fact, current estimates indicate that for the balance of the decade this market will grow even faster than it did in the 1977-85 period.

This positive prognosis for the market bodes well for the continued success of Lowe's retail sales. Our positioning efforts of the past five-plus years have enabled us to grow at rates in excess of the overall market. Growth that exceeds the total industry pace has one very important result: increased market share. And in fact, since 1977 our share of the do-it-yourself market has nearly doubled.

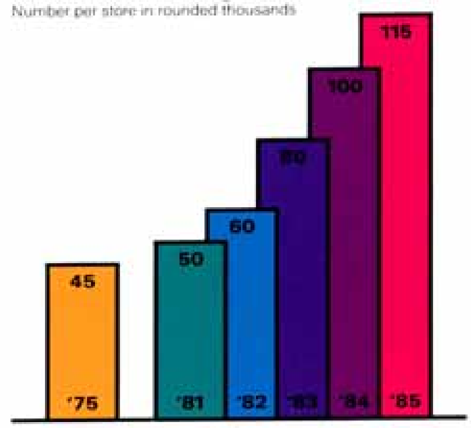
If the past is prologue to the future, a look at the charts of our retail market reveals no reason why Lowe's historic growth curve should not continue upward. To maintain our torrid rate of sales growth might be impossible in many industries, or at most other places and times; however, our share of the national market, although growing rapidly, is still very small. There is still a huge piece of the (apple) pie out there for us to stick our forks into.

Our Retail Customers: Who They Are and How We Serve Them

Typically our retail customers are do-it-yourselfers who were originally drawn into the market by the desire or need to maintain their homes economically in an era of inflation. Now, with some experience behind them, they are moving on to projects that will upgrade their living space or give them new opportunities to enjoy their home environments. Mobility, which for years fueled the national rate of housing turnovers, has now declined, and people are staying longer in existing homes. So instead of merely painting walls to match furniture which was just moved in from across the country, they are undertaking serious redecorating and remodeling to customize their homes to their tastes. The price tags of these "Improve-It" and "Enjoy-It" projects are generally higher than those in the "Fix-It"

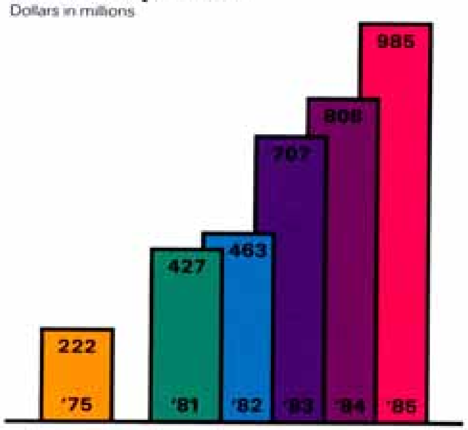
Customer count growth

Number per store in rounded thousands



1983	1982	1981	1980	1975
$1,430.6	$1,034.0	$ 888.0	$ 883.6	$ 388.3
+38	+16	+1	−2	+12
$ 723.6	**$ 570.7**	**$461.2**	**$419.8**	**$165.5**
+27	+24	+10	+7	+1
51	**55**	**52**	**48**	**43**
$ 707.0	**$ 463.3**	**$426.8**	**$463.8**	**$222.8**
+53	+9	−8	−9	+22
49	**45**	**48**	**52**	**57**

Growth of pro sales
Dollars in millions



mode, so Lowe's has an increased market opportunity from these do-it-yourselfers.

Many of our home-improvers are women — in fact, women make up 45% of the do-it-yourself market. Now more likely than ever to be working outside the home, women have increased disposable income but less time to shop. Women are identified as aggressive, seasoned shoppers who expect high standards of product display and sales floor appearance. They also value savings and search vigorously for bargains. But as their time is at a premium, they want quick, knowledgeable service and checkout convenience.

Lowe's Design Services work diligently on the visual appeal of product packaging, displays, and total store presentation. Ideas for combining and using our merchandise are presented attractively to capture the customer's imagination and suggest further improvements. In each area of our stores, specially trained department managers are available to offer personal and expert service. Increased computing capacity and speed at our checkout counters, extended shopping hours, and flexible credit plans are features of Lowe's total customer service policy with which we hope to continue attracting home improvers.

The Professional Market

A look at charts of the pro market during the Seventies and early Eighties might well give you the sensation of riding a world class rollercoaster, complete with anticipation-building climbs and terrifying free-fall plummets. From housing start levels of two million units it was not uncommon to see a free-fall to one million and a climb back to two million within just three years.

The Pro Picture

	Total U.S. Private Housing Starts (Millions)	Total Private Housing Starts Southern Region (Thousands)	Lowe's Pro Sales (Millions)	Lowe's Pro Sales Per National Start	Lowe's Pro Sales Per Southern Start
1977	1.987	783	$412	$207	$ 526
1978	2.020	824	469	232	569
1979	1.745	748	512	293	684
1980	1.292	643	464	359	722
1981	1.084	562	427	394	760
1982	1.062	591	463	436	783
1983	1.703	935	707	415	756
1984	1.750	866	808	462	933
1985 P	1.733	778	985	542	1,208
1990 E	1.775	859	?	?	?

Source: U.S. Department of Commerce; E.W. Dodge/DRI "The Next Five Years"
P = Preliminary
E = Estimate

Doing business in that kind of environment was as difficult as practicing your penmanship on a rollercoaster. However, since 1983 the track has leveled considerably. The nation has enjoyed a very stable housing period since the current economic expansion began. Another facet of the construction business which has become increasingly relevant to Lowe's is the commercial segment, executing government contracts and building private office complexes. This commercial segment is also adding stability to our professional business. And as Lowe's pro sales growth has shown, stability is much more conducive to strategic marketing planning than the thrills and chills of a rollercoaster.

In recent years the pulse of the housing/construction market has been steady, and sales growth in a stable market is hard to achieve, because the only way to grow is at the expense of others. In other words, it's purely a market share game — a game that Lowe's plays very well, as evidenced by the doubling of our sales per national start since 1977, and by our 30% increase since 1983. In the South, where Lowe's does most of its business, our market penetration has shown even better results.

Our prognosis for the future of this market can be summarized in one word: stability. It's a word that brings challenges and opportunities which we have already begun to exploit. For example, in a stable market the customer's concern shifts to quality and value and away from anxieties centered on price or availability. This more balanced purchasing mentality gives Lowe's a chance to sell step-up offerings that deliver the quality and value features our customers desire at good margin rates for us. Also, we can broaden our focus to include other segments of the building materials and construction industry. Stability provides us with the opportunity to plan and to build instead of rushing to keep pace with crashing markets, material shortages, and volatile pricing environments.

In today's environment the average new single family house requires slightly more than $30,000 worth of materials. At Lowe's we are developing programs geared toward the specific needs of the various components of that $30,000 market opportunity. This means working more closely with contractors, subcontractors, and home buyers in order to out-service our competitors. The efforts of our professional sales programs during the balance of the decade should yield significant increases in market share. In short we intend to be dominant in the construction materials market of the 1990's.

Our Professional Customer: A Relationship To Build On

Professional builders were a cornerstone in the foundation of this company, and they continue to be the source of almost half of our total sales. In recent years they have become a diverse group which now includes contractors for film studios, government agencies, and national hotel and restaurant chains as well as our traditional home builders, developers, and subcontractors in every area of specialization. This broadened professional base lessens our vulnerability to housing downturns while also challenging us to meet the needs of a more varied group of professional customers.

We maintain a separate and independently staffed area in our stores which is dedicated to serving our professional customers, who most often order products in volume and on credit. Soon our IBM Series I system will offer pro customers the potential for interactive computer graphics. At stores in which professional sales dominate, the power of Series I can be shifted away from point-of-sale functions and devoted to modifying builders' designs on the terminal screen. This is one more way in which Lowe's is using state-of-the-art technology to custom-tailor our service for both our retail and professional customer groups.

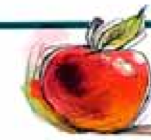
The Overall Outlook

The market outlook overall is encouraging, thanks to lower mortgage rates, minimal inflation, decreasing gas prices, and strong gains in employment and housing starts. Lowe's will prosper in this environment, maintaining its position as an industry leader and competing successfully for dominance in our targeted market areas.

Here's looking at them our industry and our competition

Top 10 at a glance

- Total sales: $18.4 billion representing 42.9% of all DIY expenditures.
- **Lowe's** $2.1 billion in sales accounted for 11.4% of the Top 10 volume.
- Total stores: 5,620 units representing 47.7% of all Giants' units.
- **Lowe's** 282 year-end units made up 5.0% of the unit count.
- Sales per unit of the Top 10 averaged $3.3 million.
- **Lowe's** 1985 average store sales equaled $7.59 million.
- The Top 10 Giants opened 209 new units.
- **Lowe's** opened 38 new units (including Boise Cascade acquisition) for 17.7% of the Giants' total.
- As a group, the Top 10 customer mix was 77% DIY and 23% professional builder/commercial.
- **Lowe's** 1985 customer mix was 52% retail, 48% professional/other.



A look at the giants of the building supply retailing industry of ten years ago compared with 1985 is very revealing. In the 1975 list compiled by *Building Supply Home Centers* Magazine four of the top ten companies were not primarily building supply retailers but were mass merchandisers or discounters with strong hardware and building materials departments.

The 1985 list is composed of companies devoted entirely to building materials sales or, as in the case of Kmart, with major commitments to the industry. This change marks the emergence of building supply retailing as a distinct industry with its own identity.

The Top 10 building supply giants

1985 Rank		Sales	1975 Rank	
1	**Lowe's**	$ 2.0 billion	1	Sears
2	Kmart	1.5 billion	2	Wickes
3	Wickes	1.5 billion	3	Montgomery Ward
4	W.R. Grace	1.4 billion	4	Evans Products
5	Payless Cashways	1.4 billion	5	Kmart
6	Evans Products	1.0 billion	6	J.C. Penney
7	Home Depot	700 million	7	**Lowe's**
8	84 Lumber	650 million	8	National Building Centers
9	Sutherland Lumber	575 million	9	84 Lumber
10	Hechinger Company	$500 million	10	Diamond International

Source: *Building Supply Home Centers*

What has since befallen the other companies ranked in 1975 is also significant. Two of the groups were acquired by larger, more diversified companies and both have encountered financial difficulties. Another, which was already a division of a larger corporation, was spun off and after a succession of owners it was finally dissolved. Chapter 11 proceedings and diversification attempts have hampered another member of the 1975 top ten. In fact, only three of that group have survived in their 1975 forms.

In 1975 Lowe's was closer to the bottom of the ranking than the top. In the intervening years other companies rose and fell through the list while Lowe's climbed steadily upward. Today we are the largest of the giants and one of the few with a consistent track record.

Based on past and present performance of our competition, the future of our industry promises still more interesting times. One of the biggest phenomena of the last decade, the warehouse concept, is represented in two of 1985's top ten companies, but its long-term viability is not proven and some companies are already backing away from the ruinous "warehouse wars" of the last two years. The future will also see continued industry shuffling and shakeout, as financial problems and divestiture activities already afflict some of the 1985 giants.

Competition: it's what keeps us on our toes, forcing us to grow and evolve, to develop responsively to ever-changing market conditions. Competition provides a sort of yardstick against which we can measure ourselves and our progress. How are we doing? How're the other guys doing? Are they doing something that we should be doing too, or more, or better?

With Lowe's history of innovation and successful growth, we provide serious competition for a number of diverse organizations that operate in various regions of Lowe's Land and cater to varying segments of our market. But although we compete aggressively in hardware and lumber and electronics and home decor

and all our other product areas, there is no single organization or group against which we can compare Lowe's overall progress. It would be like comparing apples to oranges, because in many significant ways there is no company like Lowe's.

Lowe's is rooted in small town America, and we have chosen to develop that as our particular niche. We will take opportunities wherever we find them, of course, but our main concentration will always be the small and medium size towns and cities where we are needed and appreciated most, and where our primary competition is single, family-owned stores.

Lowe's Heartland is the Sun Belt, now widely recognized as the most desirable part of the whole country in which to live and work — and build. We have more stores in the Sun Belt than any other home center chain.

Lowe's serves two distinct customer groups, professional and retail. From the beginning we have cultivated our relationship with professional homebuilders, and now we include commercial and governmental contractors and light industry among our professional clientele. In recent years we have assiduously courted retail consumers, with such success that they now constitute our core business. This two-gun business offers us unique opportunities and challenges, and also insulates us from wild fluctuations in any single segment of our market. Our aim is that both our customer groups should benefit from being served under one roof at Lowe's.

Our unique customer franchise dictates an equally unique product assortment. Lowe's sales floors are the culmination of our merchandising, sales, and distribution philosophies. The products on display are selected to suit the particular market environment of each store, while Lowe's Low Prices reflect the advantages of Lowe's volume purchasing clout. How do volume purchasing and sales floor individuality achieve peaceful coexistence? With the help of our state-of-the-art inventory tracking and maintenance systems, we get flexibility from our policy of central distribution and warehousing at the store level. Our store clustering concept also aids in inventory management, and helps us market more efficiently within individual media areas.

We are proud of all the ways in which Lowe's is unique, and we wouldn't dream of changing our apple into an orange to facilitate comparisons. Not that we have anything against oranges: we just know when we're well off, and we'd rather devote our energies to making Lowe's the best possible apple it can be.

Management's responsibility for financial reporting

Management is responsible for the preparation, as well as the integrity and objectivity, of the accompanying financial statements. The financial statements have been prepared in conformity with generally accepted accounting principles consistently applied, and accordingly include certain amounts which represent management's best estimates and judgments.

Management maintains internal systems to assist it in fulfilling its responsibility for financial reporting including high standards in the selection of personnel, appropriate segregation of duties, well-defined and communicated policies and procedures, and an extensive internal audit function that periodically reviews compliance with established policies and procedures. The systems have been designed to provide reasonable assurance of compliance and reporting. These systems are reviewed and modified in response to changing conditions.

The Audit Committee of the Board of Directors, which is comprised of two outside directors and one former managing director, meets with the Company's senior financial personnel, internal auditors and independent accountants to review audit plans and results as well as the actions taken by management in discharging its responsibilities for accounting, financial reporting and internal control systems. The Audit Committee reports its findings to the Board of Directors and also recommends the selection of independent accountants. Management, the internal auditors and independent accountants have regular, direct and confidential access to the committee.

The independent accountants regularly review the systems of internal accounting control as a part of their examination of the Company's financial statements in accordance with generally accepted auditing standards. Their report provides an independent opinion as to the fairness of the presentation of the statements.

Report of independent certified public accountants

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

We have examined the consolidated balance sheets of Lowe's Companies, Inc. and subsidiary companies as of January 31, 1986, 1985 and 1984, and the related consolidated statements of current and retained earnings and of changes in financial position for each of the three fiscal years in the period ended January 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the consolidated financial position of Lowe's Companies, Inc. and subsidiary companies at January 31, 1986, 1985 and 1984, and the consolidated results of their operations and the changes in their financial position for each of the three fiscal years in the period ended January 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells
Charlotte, North Carolina
March 14, 1986

Funds strategy

The statements of changes in financial position is considered by many knowledgeable analysts to be the best single financial document available for interpreting both the annual results and financial posture assumed by an organization. Our report begins with net earnings and reconciles to cash as the "bottom line." As such, it quickly highlights liquidity trends and identifies the Company's operations and activities that were a source or use of working capital. An analysis of Lowe's statements of changes in financial position reflects the Company's investment in a new long-term strategic direction (as described in the balance sheet management section).

While net earnings dropped from $61 million in 1984 to $60 million in 1985, funds from operations actually increased by 6% to $84 million. This was due to a $7 million increase in depreciation, reflective of the Company's investment commitment to the future.

Lowe's systematically employs external sources of capital in its invested funds. In Fiscal 1985 Lowe's secured additional debt of $101 million along with externally generated equity of $18.8 million through the issuance of common stock as part of the Company's Fiscal 1984 ESOP contribution (Note 7). During 1984, such funds principally came from the addition of $49 million of long-term debt, while during 1983, $54 million was added from the sale of common stock. Total funds provided, inclusive of external sources, was $206 million for Fiscal 1985, an increase of 59% over 1984.

In Fiscal 1985, cash dividends were increased to .36 cents per share from .32 cents in the preceding year, representing a 12.5% increase. Coupled with the effect of the issuance of common stock to the ESOP, cash dividends increased by $1.6 million or 14% in 1985.

Fixed asset acquisitions were $137 million in Fiscal 1985, twice the 1984 level and 3½ times the 1983 level. This investment reflects Lowe's long-range commitment to position the Company as an aggressively expanding specialty retailer.

Working capital components are the dynamic elements of current assets and liabilities which are employed daily to generate sales and profits. The management of these assets in terms of their profitability and turnover is critical to the Company's success and is reviewed in the balance sheet management section.

In Fiscal 1978, Lowe's changed from FIFO to LIFO accounting. To achieve comparability, we employ an easy to understand method to compare the funds from operations during years of LIFO inventory accounting, with the years (1963 through 1977) of FIFO inventory accounting. Some of these years are presented in the supplemental information review section. The formula for 1978 and subsequent years is:

From: FIFO Net Earnings Before Taxes
Subtract: Actual Taxes (from the audited financials)
Add: Depreciation and Deferred Income Taxes
Result: FIFO Funds From Operations

The reason this formula is valid is that all the funds flow that was present under FIFO still flows in under LIFO, and is augmented by decreased tax liability whenever there is a LIFO charge.

Management analysis: Lowe's financial strategies

Earnings statement

Sales and margins. Lowe's sells to two customer groups. Sales to professional builders generally carry a lower margin and are more cyclical, while sales to retail customers typically have a higher margin and are less sensitive to fluctuations in the business cycle. In Fiscal 1983, a strong home building year due to the reduction of mortgage interest rates, retail sales represented just over half of the Company's business. At the very end of that year, we opened our first "super-sized" stores (sales floors larger than 20,000 square feet) to more effectively target the retail customer, and embarked upon a program to convert more of our existing stores to the new super size. In Fiscal 1984, builder sales increased 14%, reflecting the rebounding housing market. At the same time, we increased our retail sales by 22% over the prior year's results, to 52% of total sales, with the opening of 12 new super-sized stores. In early Fiscal 1985, Lowe's changed its mix of pro/retail sales by acquiring 25 stores in the Texas-Oklahoma market from Boise Cascade Corporation. With the exception of the acquired stores, Lowe's 1985 sales mix was 55% retail and 45% professional. For the total Company, retail sales still represented 52% of total. By January 31, our stores included 47 locations with more than 20,000 square feet.

Gross profit on a FIFO (first-in, first-out) basis decreased from 25.50% of sales in Fiscal 1983 to 25.09% in Fiscal 1984, reflecting increased competitive pricing and deflation in lumber, other commodities, and electronics products. In Fiscal 1985, FIFO margin further declined to 24.55%, reflecting the effect of the lower margin builder sales from the acquired Boise stores; increased inventory shrinkage associated with major remodeling and larger sales floors; and additional costs from opening our new state-of-the-art distribution center in Villa Rica, Georgia.

A single adjustment from FIFO to LIFO margin, measuring the effect of inflation in the cost of inventory, represented a charge of .40% of sales in Fiscal 1983, a credit of .16% of sales in Fiscal 1984, and a credit of .17% of sales in Fiscal 1985. The LIFO charge for 1983 was primarily due to inflation in basic building materials. The 1984 credit represents deflation in the prices of lumber, other commodities, and electronic products. The 1985 credit was caused by deflation in building related materials and in consumer electronics.

Expenses. Selling, general and administrative expense increased 16% from Fiscal 1983 to Fiscal 1984, compared with a sales gain of 18%. This reflects the sales leverage effect of our fixed costs between those years. In Fiscal 1985, due to expansion, our base fixed costs rose again. The largest S, G & A expense is salaries, representing 9.14%, 8.98%, and 9.13% of sales in Fiscal 1983, 1984, and 1985, respectively. The second largest is advertising, which has increased at a growth rate approximating that of our sales during the three-year period.

Depreciation increased 23% in Fiscal 1984 due to an increase of 30% in total fixed assets cost, and 47% in Fiscal 1985 as fixed assets rose 46% at cost. About $20 million of the fixed assets acquired in Fiscal 1985 were purchased from Boise Cascade Corporation, and approximately $12 million were invested in the Villa Rica Distribution Center.

Contributions to the Employee Stock Ownership Plan increased 11% in Fiscal 1984 and 9% in Fiscal 1985 reflecting a reduction in the contribution rate from 15% to 14%. This reduction in ESOP was somewhat offset by an increase in the Company's share of health insurance costs.

For analysis of interest changes, see Note 12 to the financial statements.

For further discussion of the effect of inflation on the income statements, see the "supplemental information on the effects of changing prices."

Consolidated statements of changes in financial position

Lowe's Companies, Inc. and subsidiary companies
Dollars in thousands

Fiscal years end on January 31 of following year	Fiscal 1985	Fiscal 1984	Fiscal 1983
Funds provided:			
Net earnings	$ 59,714	$ 61,443	$ 50,615
Charges not requiring funds:			
Depreciation	21,759	14,805	12,034
Deferred income taxes	2,979	3,443	3,926
Funds from operations	**84,452**	**79,691**	**66,575**
Deferred income	—	—	1,273
Long-term debt borrowings	100,908	48,944	11,699
Disposals of fixed assets	1,684	990	7,517
Stock issued to ESOP	18,776	—	—
Tax benefit of ESOP dividend	721	—	—
Stock options exercised	13	—	—
Sale of common stock	—	—	53,740
Total funds provided	**$206,554**	**$129,625**	**$140,804**
Funds applied:			
Cash dividends	$ 13,199	$ 11,600	$ 11,600
Fixed assets acquired	136,809	69,794	39,383
Current maturities and repayment of long-term debt	9,487	8,347	16,041
Redemption of fractional shares of common stock	—	—	33
Other	7,031	5,674	1,541
Total funds applied	**166,526**	**95,415**	**68,598**
Increase in working capital	**$ 40,028**	**$ 34,210**	**$ 72,206**
Changes in working capital components: ( ) = Decrease in working capital			
Accounts receivable — net	$ 30,284	$ 2,661	$ 19,270
Merchandise inventory	64,875	43,168	37,565
Other current assets	4,134	(986)	294
Current maturities of long-term debt	(1,590)	(1,225)	(227)
Accounts payable	(43,065)	(14,588)	(19,835)
Employee benefits payable	(2,236)	(2,697)	(6,421)
Accrued salaries and wages	1,394	(990)	(4,552)
Other current liabilities	(14,987)	(5,612)	(3,192)
Income taxes payable	(1,767)	4,524	396
Working capital changes before cash*	**37,042**	**24,255**	**23,298**
Increase in cash*	**2,986**	**9,955**	**48,908**
Cash,* beginning of year	**84,204**	**74,249**	**25,341**
Cash,* end of year	**$ 87,190**	**$ 84,204**	**$ 74,249**

*Cash and cash equivalents
See accompanying notes to consolidated financial statements.

Management analysis: Lowe's financial strategies

Balance sheet management

Historically, Lowe's balance sheet management has focused on two basic financial strategies; the first centers on the structural balance of the various asset components while the latter is concerned with financing these assets through an appropriate mix of equity, debt, and accounts payable. In reviewing Fiscal 1985, these two basic financial strategies should be viewed as existing under the umbrella of our strategic plan of growth, which is oriented towards expanding as a specialty retailer.

First, on the asset side, we maintain the major portion of our assets in items that "turn" around sales; specifically, cash is invested in inventory, which "turns" into accounts receivables, which is then converted back into cash through a never ending business life cycle. As a group, these items have fallen from 72% of total assets in Fiscal 1983 to 62% by the end of Fiscal 1985, or a decline of 10%. Net fixed assets (net of accumulated depreciation), on the other hand, have increased during the same period from 27% of assets to reach a level of 36% as of January 31, 1986. For Fiscal 1985, it is specifically this proportional shift in the asset composition that signals our new strategic direction.

Since 1978, the inventory reflected on the balance sheet has been valued using the LIFO method of accounting; during inflationary periods, this method lowers the stated value of inventory. However, as described in Note 2, if the conventional FIFO method had been used (which more closely reflects the inventory at its current market value), balance sheet inventories would have been $25 million, $28 million, and $31 million higher at January 31, 1986, 1985 and 1984, respectively.

Inventory is the single most important asset to a company like Lowe's, because it is the raw material of our profitability. Therefore, continuing attention is given to managing it properly. For Fiscal 1985, Lowe's FIFO inventory turns (cost of sales divided by average inventory) reached 5.1 — the highest level in the 80's. The FIFO days inventory (ending inventory divided by the average daily cost of sales) has declined each year since Fiscal 1982 from 91 days to a current level of only 79 days. Both of these measures, FIFO inventory turns and FIFO days inventory, reflect the strong commitment by Lowe's to properly manage this asset category as an integral part of its strategic philosophy.

Accounts receivable are generated from sales to professional builder customers. Our retail customers principally pay cash, with any retail credit being sold daily to finance companies on a non recourse basis. We view our accounts receivable as a marketing tool which gives us a strong competitive advantage. Accounts receivable reached an all-time fiscal year-end high of $128 million at January 31, 1986, amounting to an increase of $30 million, or 31% over the previous year. Yet to evaluate the appropriateness of this increase, we must go backstage to see how well accounts receivable actually performed. Accounts receivable turns (professional customer sales divided by average accounts receivable) was 8.8 times for Fiscal 1985, the highest level in over 10 years! The days receivable (ending accounts receivable divided by the average daily sales level for the preceding 92 days) was 51 days for Fiscal 1985, the lowest level achieved in over 10 years! Similarly, the allowance for doubtful accounts was only 3.4% of gross accounts receivable, also the lowest level obtained in over 10 years!

Cash and short-term investments fell from 14% of total assets in Fiscal 1983 to 10% by the end of Fiscal 1985. While the cash balance actually increased by 18% to $87 million, the total asset base increased 65% over the same two-year period.

Net fixed assets, which increased 58% from Fiscal 1984 to Fiscal 1985, represent the infrastructure for Lowe's investment in its growth strategy. In Fiscal

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 1985	% Sales	Fiscal 1984	% Sales	Fiscal 1983	% Sales
Current earnings						
Net sales	**$2,072,569**	**100.0%**	**$1,688,738**	**100.0%**	**$1,430,576**	**100.0%**
Cost of sales	1,560,373	75.3	1,262,394	74.8	1,071,437	74.9
Gross margin	**512,196**	**24.7**	**426,344**	**25.2**	**359,139**	**25.2**
Expenses:						
Selling, general and administrative	343,346	16.6	269,347	16.0	231,732	16.2
Depreciation	21,759	1.0	14,805	.9	12,034	.8
Employee benefits (Note 7)	22,719	1.0	20,802	1.2	17,114	1.2
Interest (Note 12)	11,507	.6	2,314	.1	1,368	.1
Total expenses	**399,331**	**19.2**	**307,268**	**18.2**	**262,248**	**18.3**
Pre-tax earnings	**112,865**	**5.5**	**119,076**	**7.0**	**96,891**	**6.8**
Income tax provision (Note 6)	53,151	2.6	57,633	3.4	46,276	3.3
Net earnings	**$ 59,714**	**2.9%**	**$ 61,443**	**3.6%**	**$ 50,615**	**3.5%**
Shares outstanding — weighted average	36,509		36,248		36,193	
Earnings per share	**$ 1.64**		**$ 1.70**		**$ 1.40**	

Retained earnings (Notes 5 and 8)	Amount	Per share	Amount	Per share	Amount	Per share
Balance at beginning of year	**$ 259,377**		**$ 209,534**		**$ 171,134**	
Adjustment for five-for-three stock split:						
On shares sold on February 8, 1983					(583)	
Redemption of fractional shares					(32)	
Net earnings	59,714	$ 1.64	61,443	$ 1.70	50,615	$ 1.40
Cash dividends (Notes 5 and 8)	(13,199)	(.36)	(11,600)	$ (.32)	(11,600)	$ (.32)
Tax benefit of ESOP dividend (Note 6)	721	$ .02	—		—	
Balance at end of year	**$ 306,613**		**$ 259,377**		**$ 209,534**	

See accompanying notes to consolidated financial statements.

Balance sheet management

1985 alone, fixed assets were acquired at a cost of $137 million, a dramatic increase over the Fiscal 1984 and Fiscal 1983 levels of $70 million and $39 million, respectively. Store expansion substantially accounted for the fixed asset expenditures, as 38 new facilities were acquired or built. Four small leased properties were closed in eastern Texas, leaving a net increase of 34 units. Also in Fiscal 1985, $12 million were invested in the Villa Rica Distribution Center.

The second major balance sheet strategy is involved with the structuring and management of liabilities and shareholders' equity, which, of course, finance total assets. The most important components are shareholders' equity, accounts payable, and long-term debt.

Just as we saw a proportional shift in the asset mix, a similar change has occurred between equity and debt. Equity has fallen from 56% of total assets at the end of Fiscal 1983 to 48% for Fiscal 1985. During the same period, as a percentage of total assets, debt increased by 11%, reaching a level of 22% of total assets at January 31, 1986.

Over the last two years, equity has increased $116 million, reaching $407 million at January 31, 1986. This increase resulted from $121 million in earnings, paying out $25 million in dividends, and generating $18.8 million by issuing new equity (see Note 7).

Long-term debt has consistently been used to finance a portion of our expansion. With outstanding debt of $58 million on January 31, 1984, we subsequently added $150 million and retired $15 million leaving $193 million in debt at January 31, 1986 (see Note 5). During Fiscal 1984, we borrowed $12 million in tax-exempt industrial revenue bonds, $30 million in a private debt placement with an insurance company, and $7 million in capitalized equipment leases. In Fiscal 1985, we secured additional debt of $75 million in a public note offering, $18.8 million in industrial revenue bonds, $5 million in capitalized equipment leases and $2 million in other notes.

Accounts payable is principally a function of inventory levels, payment terms upon purchase, and purchasing trends. Consequently, it fluctuates as a percent of inventory and as a source of financing. The days payable (ending accounts payable balances divided by the average daily purchases) at January 31, 1986, 1985, and 1984 was 38 days, 35 days, and 36 days, respectively. As a percent of total assets, accounts payable has consistently financed 20%, 20%, and 21% of total assets as of the end of Fiscal 1985, 1984, and 1983, respectively.

The remaining liabilities, which were funding 10%, 10%, and 12% of our assets on January 31, 1986, 1985, and 1984, respectively, represent various obligations including current and deferred income taxes payable, other current liabilities and accruals, and employee benefits. During Fiscal 1983 and Fiscal 1984, no short-term borrowings were required; a limited amount did occur during Fiscal 1985 (see Note 4).

To support our expansion program, the Company, as of January 31, 1986, has committed to invest approximately $32 million for land, buildings, and construction of store facilities, and $7 million for equipment. The Company also intends to purchase computer systems and point-of-sale registers for our stores for approximately $20 million over the next two years. Portions of such equipment are expected to be financed through third-party leases.

In summary, balance sheet management is one of Lowe's most important corporate strategies and obviously essential to our growth. We continue to be proud of the strength of our balance sheet.

Consolidated balance sheets

Lowe's Companies, Inc. and subsidiary companies
Dollars in thousands

	January 31, 1986	%	1985	%	1984	%
Assets						
Current assets:						
Cash and short-term investments	$ 87,190	10.2%	$ 84,204	13.3%	$ 74,249	14.2%
Accounts receivable–net (Notes 1 and 12)	127,603	14.9	97,319	15.3	94,658	18.2
Merchandise inventory (Note 2)	313,143	36.5	248,268	39.1	205,100	39.4
Other current assets	6,713	.8	2,579	.4	3,565	.7
Total current assets	**534,649**	**62.4**	**432,370**	**68.1**	**377,572**	**72.5**
Property, less accumulated depreciation (Notes 3 and 5)	308,603	36.0	195,237	30.7	141,238	27.1
Other assets	14,137	1.6	7,737	1.2	2,100	.4
Total assets	**$857,389**	**100.0%**	**$635,344**	**100.0%**	**$520,910**	**100.0%**
Liabilities and shareholders' equity						
Current liabilities:						
Current maturities of long-term debt (Note 5)	$ 8,673	1.0%	$ 7,083	1.1%	$ 5,858	1.1%
Accounts payable	168,068	19.6	125,003	19.7	110,415	21.2
Employee benefits payable (Note 7)	22,225	2.6	19,989	3.1	17,292	3.3
Accrued salaries and wages	13,258	1.5	14,652	2.3	13,662	2.6
Other current liabilities	37,128	4.3	22,141	3.5	16,529	3.2
Income taxes payable	2,317	.3	550	.1	5,074	1.0
Total current liabilities	**251,669**	**29.3**	**189,418**	**29.8**	**168,830**	**32.4**
Long-term debt, excluding current maturities (Note 5)	**183,909**	**21.5**	**92,488**	**14.6**	**51,891**	**10.0**
Deferred income taxes (Note 6)	13,240	1.5	10,854	1.7	7,411	1.4
Commitments, contingencies and litigation (Note 11)	—	—	—	—	—	—
Total liabilities	**448,818**	**52.3**	**292,760**	**46.1**	**228,132**	**43.8**
Deferred gains (Note 10)	1,198	.1	1,236	.2	1,273	.2
Shareholders' equity (Note 8)						
Common stock–$.50 par value; issued and outstanding: 1986 37,082,448; 1985 36,248,475; 1984 36,248,475	18,541	2.2	18,124	2.9	18,124	3.5
Capital in excess of par	82,219	9.6	63,847	10.0	63,847	12.3
Retained earnings	306,613	35.8	259,377	40.8	209,534	40.2
Total shareholders' equity	**407,373**	**47.6**	**341,348**	**53.7**	**291,505**	**56.0**
Total liabilities and shareholders' equity	**$857,389**	**100.0%**	**$635,344**	**100.0%**	**$520,910**	**100.0%**

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc. and subsidiary companies
Fiscal years ended January 31, 1986, 1985 and 1984

Note 1, Summary of Significant Accounting Policies:

The Company is a specialty retailer of building materials and related products for home improvement and home construction markets serving both the do-it-yourself retail customer and the professional builder. The accounting policies of Lowe's Companies, Inc. and subsidiary companies are in accordance with generally accepted accounting principles. 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. On March 29, 1985, the Company purchased 27 operating units from Boise Cascade Corporation for approximately $50 million. The transaction was a purchase of assets for cash. The purchased assets include real estate, fixtures and rolling equipment, all at the seller's net book value, along with certain inventories and accounts receivable. The results of operations of these units have been included in consolidated operations since the acquisition date. Pro forma information with respect to the effect of these units has not been presented in that operations of such units are not considered material in relation to consolidated operations.

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 — Allowance for doubtful accounts is based on historical experience coupled with a review of existing receivables. Installment receivables arising from consumer sales 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.

Property and depreciation — Property is recorded at cost. Major additions are capitalized and depreciated; maintenance and repairs which do not extend the lives of or improve the respective assets are expensed. 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 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 (Note 10).

Income taxes — Income taxes are provided on pre-tax earnings as reported in the consolidated financial statements. Deferred income taxes result from timing differences between pre-tax earnings reported in the consolidated financial statements and taxable income. Using the flow-through method, investment tax credits are accounted for as a reduction of income tax expense in the year in which the credits are utilized.

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

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

Start-up expenses — Expenses associated with the opening of new stores and service facilities are charged to earnings as incurred.

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 $24.735 million, $28.180 million and $30.866 million higher at January 31, 1986, 1985 and 1984, respectively; net earnings would have decreased $1.723 million or 5 cents per share in Fiscal 1985, decreased $1.343 million or 4 cents per share in Fiscal 1984 and increased $2.891 million or 8 cents per share in Fiscal 1983.

Note 3, Property and Accumulated Depreciation:

Property is summarized below by major class with estimated lives in years as follows: buildings, 20 to 30; store and office equipment, 5 to 10; transportation equipment, 3 to 7; and leasehold improvements, generally over the remaining life of the lease.

Dollars in thousands	January 31, 1986	1985	1984
Cost:			
Land	$ 61,402	$ 36,610	$ 22,929
Buildings	189,408	120,109	95,016
Store and office equipment	69,488	52,142	37,045
Transportation equipment	61,714	46,461	39,231
Leasehold improvements	27,959	25,233	21,042
Total cost	**409,971**	**280,555**	**215,263**
Accumulated depreciation	101,368	85,318	74,025
Net property (Notes 5 and 10)	**$308,603**	**$195,237**	**$141,238**

Note 4, Short-Term Borrowings and Line of Credit:

During the year ended January 31, 1986, the Company had short-term bank borrowings with an average amount outstanding (based on weighted daily average) of $1.475 million at a weighted average interest rate (ratio of actual interest expense to average amount outstanding) of 9.3% with the maximum amount outstanding at any month-end being $29.9 million. There were no short-term borrowings during the years ended January 31, 1985 and 1984.

The Company has a line of credit agreement with a bank which provides for short-term unsecured borrowings of up to $30 million with interest at the lower of prime or bank transaction rate, none of which was outstanding at January 31, 1986, 1985 or 1984.

Note 5, Long-Term Debt: Long-term debt is summarized as follows:

Debt category	Interest rates	Debt retirement: Payment cycle	Debt retirement: Year of maturity	January 31, 1986	1985	1984
Dollars in thousands						
Secured debt [1]**:**						
Insurance company notes	8% to 9%	quarterly	1993	$ 17,624	$ 20,391	$ 23,429
Bank notes	7% to 12%	quarterly	1994	832	822	955
Industrial revenue bonds	7% to 7.5%	annually	1991	765	900	1,030
Industrial revenue bonds	64%–70% of prime	monthly	1998	7,799	8,535	8,159
Industrial revenue bonds	10.625%	maturity	2014	2,100	—	—
Other notes	6.5% to 10.75%	monthly	2004	1,652	25	66
Unsecured debt:						
Insurance company [2]	8.25% to 12.75%	annually	1994	40,200	42,300	14,400
Industrial revenue bonds	62%–63% of prime	quarterly	2000	15,000	12,000	—
Industrial revenue bonds [3]	5.25% to 6.56%	annually	2005	11,700	—	—
Industrial revenue bonds	62% of prime	annually	2000	2,400	—	—
Notes [4]	11.5%	maturity	1995	74,707	—	—
Capital leases (Note 10)	**6.1% to 16.5%**	**monthly**	**2018**	**17,803**	**14,598**	**9,710**
Total long-term debt				**192,582**	**99,571**	**57,749**
Less current maturities [5]				**8,673**	**7,083**	**5,858**
Long-term debt, excluding current maturities				**$183,909**	**$92,488**	**$51,891**

[1] Real properties pledged as collateral for secured debt had net book values at January 31, 1986, as follows (in millions): Insurance company notes — $34.530; Bank notes — $3.002; Industrial revenue bonds — $11.998; and Other notes — $2.232. In addition, $12.3 million of unexpended industrial revenue bond proceeds are included in other assets in the accompanying consolidated financial statements and are restricted to acquisition of capital assets or repayment of the debt.

[2] The insurance company loans require certain financial conditions to be maintained, restrict other borrowings, and limit the payment of dividends. After giving effect to the most restrictive provisions, approximately $113.1 million of consolidated retained earnings is available for payment of dividends.

[3] The Company issued notes to secure $11.7 million of 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. The Bonds can be converted to a fixed interest rate based on a Fixed Interest Index at the Company's option and with certain restrictions.

[4] The Company, in a public offering on April 1, 1985, issued $75 million of 11.5% notes at a discount of .426%. The discount and issuance costs are being amortized over the life of the indebtedness. These notes may be redeemed after April 1, 1992 at the option of the Company, at any time, in whole or in part, at 100% of the principal amount thereof, together with 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.

[5] Debt maturities, exclusive of capital leases (see Note 10), for the next five fiscal years are as follows (in millions): 1986 — $6.785; 1987 — $6.792; 1988 — $7.736; 1989 — $7.328; 1990 — $6.413.

Note 6, Income Taxes:

The provision for income taxes shown in the consolidated statements of current and retained earnings is reconciled to both the federal tax at the statutory rate and the breakdown between current and deferred taxes as follows:

Fiscal years end on January 31 of following year	Fiscal 1985		Fiscal 1984		Fiscal 1983	
	Amount	%	Amount	%	Amount	%
Dollars in thousands						
Income before income taxes	**$112,865**	**100.0%**	**$119,076**	**100.0%**	**$96,891**	**100.0%**
Federal tax at statutory rate	51,918	46.0	54,775	46.0	44,570	46.0
State income taxes —						
net of federal tax benefit	3,674	3.3	3,803	3.2	3,034	3.1
Investment tax credits	(2,552)	(2.3)	(1,513)	(1.3)	(1,328)	(1.4)
Other	111	.1	568	.5	—	—
Total tax provision	**53,151**	**47.1**	**57,633**	**48.4**	**46,276**	**47.7**
Currently payable:						
Federal	43,732	82.3	47,489	82.4	37,194	80.4
State	6,440	12.1	6,701	11.6	5,156	11.1
Total currently payable	**50,172**	**94.4**	**54,190**	**94.0**	**42,350**	**91.5**
Deferred:						
Federal	2,616	4.9	3,102	5.4	3,463	7.5
State	363	.7	341	.6	463	1.0
Total deferred	**2,979**	**5.6**	**3,443**	**6.0**	**3,926**	**8.5**
Total tax provision	**$ 53,151**	**100.0%**	**$ 57,633**	**100.0%**	**$46,276**	**100.0%**

Income tax benefits of $721 thousand in Fiscal 1985 related to ESOP dividend deductions have been credited directly to retained earnings and, accordingly, have not been reflected as an offset to the income tax provision on the consolidated statements of current and retained earnings. No such benefits were available in Fiscal 1984 or 1983. Deferred income taxes arise principally from the different treatment of depreciation and certain insurance costs for financial reporting and income tax purposes.

The Company's consolidated federal tax returns for the years ended January 31, 1982 and 1983 were examined by the Internal Revenue Service during Fiscal 1984 and 1985. None of the Internal Revenue Service's proposed adjustments would materially affect the Company's consolidated financial statements; however, certain adjustments are being contested.

Note 7, Employee Benefit Plans:

Lowe's Companies Profit-Sharing Plan and Trust held approximately 6% of the outstanding shares of the Company as of January 31, 1986. Contributions to this plan were discontinued effective December 31, 1977, and accounts of members became fully vested at that time.

The Board of Directors adopted an Employee Stock Ownership Plan (ESOP) effective January 1, 1978. The amount contributed by the Company to the ESOP is determined annually by the Board of Directors. For Fiscal 1985, 1984 and 1983, respectively, the Board authorized a contribution of 14%, 15% and 15% of eligible compensation. The ESOP includes a tax credit employee stock ownership plan which is fully funded by a federal income tax credit. On October 10, 1985, the Company issued 833,373 Lowe's common shares with an aggregate market value of $18.776 million to the ESOP as part of the Company's Fiscal 1984 contribution (Note 8). At January 31, 1986, the Employee Stock Ownership Trust held approximately 18% of the outstanding stock of the Company and was its largest shareholder.

The Company established an Employee Savings and Investment Plan during Fiscal 1984. Annually, the Board of Directors approves contributions to this plan based upon a matching formula applied to employee contributions.

Note 8, Shareholders' Equity:

Authorized shares of common stock were 120 million at January 31, 1986 and 60 million at January 31, 1985 and 1984.

On February 8, 1983, the Company sold 2.917 million shares of common stock (1.75 million shares before the adjustment for the five-for-three stock split described below). The net proceeds of $53.74 million were added to the general funds of the Company and were used principally to finance the cost of land, buildings and equipment for new and existing stores and to fund working capital.

On March 18, 1983, the Board of Directors declared a five-for-three stock split in the form of a dividend distributed to shareholders of record on April 14, 1983. Accordingly, in the accompanying financial statements, an amount equal to the par value ($6.511 million) of the additional shares issued has been transferred from retained earnings to common stock retroactive to January 31, 1983. Shares and per share amounts have been adjusted to give retroactive effect to the split.

Transactions affecting the shareholders' equity section of the consolidated balance sheets are summarized as follows:

In thousands	Shares	Dollars in thousands		Shareholders' equity	
	Issued and outstanding	**Common stock**	**Capital in excess of par value**	**Retained earnings**	**Total equity**
Balance Jan. 31, 1983	**33,333**	**$16,667**	**$10,982**	**$171,134**	**$198,783**
Sales of common stock:					
Shares issued	1,750	875	52,865		53,740
Effect of 5-for-3 split	1,167	583		(583)	—
Redemption of fractional shares (5-for-3 split)	(2)	(1)		(32)	(33)
Net earnings				50,615	50,615
Cash dividends				(11,600)	(11,600)
Balance Jan. 31, 1984	**36,248**	**18,124**	**63,847**	**209,534**	**291,505**
Net earnings				61,443	61,443
Cash dividends				(11,600)	(11,600)
Balance Jan. 31, 1985	**36,248**	**$18,124**	**$63,847**	**$259,377**	**$341,348**
Shares issued to ESOP	833	417	18,359		18,776
Net earnings				59,714	59,714
Cash dividends				(13,199)	(13,199)
Tax benefit of ESOP dividend deduction				721	721
Stock options exercised	1		13		13
Balance Jan. 31, 1986	**37,082**	**$18,541**	**$82,219**	**$306,613**	**$407,373**

Note 9, Stock Options:

During Fiscal 1985, the shareholders approved a stock option plan for the granting of incentive and non-qualified stock options to key employees of the Company; accordingly, one million common shares have been reserved. Options are exercisable from date of grant through 1991.

Option information for Fiscal 1985 is summarized as follows:

		Option price	
	Shares	**Per share**	**Total**
Outstanding at January 31, 1986:			
Granted — September 26, 1985	218,900	$ 21.375	$ 4,678,988
Granted — December 6, 1985	750	23.375	17,531
Total	**219,650**	**$21.382**	**$4,696,519**
Exercised during Fiscal 1985	600	$ 21.375	$ 12,825

Note 10, Leases:

In February 1983, the Company entered into sale-leaseback arrangements for eight store properties, resulting in capital leases of $8.6 million and deferred gains of $1.3 million. Assets under capital leases, included in property in the consolidated balance sheets, are as follows:

	January 31, 1986	1985	1984
Dollars in thousands			
Capital leases:			
Buildings	$ 9,884	$ 9,884	$ 9,884
Store and office equipment	10,863	6,316	371
Total capitalized leases	20,747	16,200	10,255
Less accumulated amortization	3,921	2,287	977
Net capital lease property	**$16,826**	**$13,913**	**$ 9,278**

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

Fiscal year	Operating leases: Real estate	Operating leases: Equipment	Capital leases	Total
Dollars in thousands				
1986	$ 3,095	$ 1,647	$ 3,566	$ 8,308
1987	2,650	884	3,503	7,037
1988	2,049	512	2,578	5,139
1989	1,854	137	2,251	4,242
1990	1,326	—	2,178	3,504
Later years	7,486	—	27,004	34,490
Total minimum lease payments	**$18,460**	**$3,180**	**$41,080**	**$62,720**
Less amount representing interest			23,277	
Present value of minimum lease payments			17,803	
Less current maturities			1,888	
Present value of minimum lease payments, less current maturities			**$15,915**	

Rental expenses charged to earnings are as follows:

Fiscal years end on January 31 of following year	Fiscal 1985	Fiscal 1984	Fiscal 1983
Dollars in thousands			
Rental expenses:			
Real estate	$ 3,842	$ 2,894	$ 2,386
Equipment	2,775	3,103	2,434
Total	**$6,617**	**$5,997**	**$4,820**

Note 11, Commitments, Contingencies and Litigation:

The Company had purchase commitments as of January 31, 1986, of approximately $32 million for land, buildings and construction of facilities, and $7 million for equipment. The Company is a 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:

Year ended January 31,	1986	1985	1984
Dollars in thousands			
Allowance for doubtful accounts:			
Balance beginning of year	$ 4,162	$ 4,047	$ 3,397
Additions charged to expenses	4,594	2,964	2,469
Deductions for accounts charged off	(4,225)	(2,849)	(1,819)
Balance end of year	**$ 4,531**	**$ 4,162**	**$ 4,047**

Interest expense is comprised of the following:

Year ended January 31,	1986	1985	1984
Dollars in thousands			
Long-term debt	$ 17,138	$ 6,049	$ 5,216
Short-term debt	137	—	—
Amortization of loan costs	122	30	29
Short-term interest income	(2,711)	(2,765)	(3,540)
Interest capitalized	(3,179)	(1,000)	(337)
Net interest expense	**$11,507**	**$ 2,314**	**$ 1,368**

Cash and short-term investments are comprised of the following:

Year ended January 31,	1986	1985	1984
Dollars in thousands			
Cash	$ 5,884	$ 1,740	$ 12,622
Short-term investments	81,306	82,464	61,627
Total	**$87,190**	**$84,204**	**$74,249**

Advertising expenses were $33.0 million, $26.2 million and $21.6 million for Fiscal 1985, 1984 and 1983, respectively.

Explanatory Notes to Supplemental Information

As required by Financial Accounting Standards Board Statement No. 33 (as amended by Statement No. 82 dated November, 1984), the Company must provide supplemental information concerning the effects of changing prices on its financial statements. The disclosures are intended to present the effect of specific price changes (current cost) in certain assets used by the Company. The Company believes that proper evaluation of the supplemental information on the effects of changing prices is dependent on an understanding of the following conceptual principles.

Partial application — The supplemental data includes the effect of specific price changes on inventories, properties, cost of sales, and depreciation expense, along with the effect of general inflation on net monetary assets or liabilities.

Net earnings — The supplemental information presents an earnings statement using two methods of measurement:

1. Historical cost basis — Earnings reported on the historical cost basis of accounting are the same amounts as reported in the primary financial statements.
2. Current cost accounting — Earnings reported under current cost accounting are intended to give effect to: Inventories and properties at current cost as of the balance sheet date; cost of sales at the current cost on the date of sale; and depreciation expense based on various indexes as described below.

Income taxes — Income tax expense (in dollars) is the same for both current cost and historical financial statements. However, current cost tax *rates* are greater than historical cost rates since income tax law does not allow additional depreciation expense resulting from the effects of inflation. During periods of inflation and increasing prices, taxes provided in excess of the statutory rates in effect result in a tax on shareholders' equity.

Purchasing power gain from holding net monetary liabilities during the year — During inflationary periods, purchasing power gain results when monetary liabilities exceed monetary assets, because such net liabilities are payable with dollars that have diminishing purchasing power. Purchasing power gain has been computed on average net monetary liabilities for the year multiplied by the current year change in the CPI-U. Such gain does not represent earnings or funds available for dividends.

Current cost measurements — Current cost of inventories is estimated by using FIFO values, as reflected in the Company's perpetual inventory records, and adjusting for price changes. Current cost of sales was determined using the LIFO method (same method used in historical statements) adjusted for prior year layer liquidation, resulting in an increase in current cost of sales of $112,000.

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

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

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

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

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

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

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

Increase in current costs of inventories and properties — Increases in specific prices of inventories and properties held during the year are not included in net earnings. Current cost increases in inventories and properties are reduced by the effect of general inflation measured by multiplying the beginning and end of the year current cost balances of inventories and properties by the ratio of the average CPI-U for the year ended January 31, 1986 to the year-end CPI-U for the respective periods. The increase in the general price level in excess of the increase in specific prices consists of the following:

	Inventories	**Properties**	**Total**
Dollars in thousands			
Current cost increases (decrease):			
Realized	$ 112	$ 2,937	$ 3,049
Unrealized	(2,887)	2,392	(495)
Total	**(2,775)**	**5,329**	**2,554**
Less general inflation	11,616	11,192	22,808
Excess of general inflation over current cost increases	$(14,391)	$(5,863)	$(20,254)

Generally accepted accounting standards do not require a reduction in unrealized current cost increases for income taxes that would become payable if such increases were realized. Based on present state and federal tax rates, approximately $38.4 million of income taxes would be applicable to unrealized current cost increases ($78.1 million at January 31, 1986) of which ($.2) million is applicable to the year ended January 31, 1986.

Supplemental information on the effects of changing prices

Statement of earnings adjusted for changing prices; dollars in thousands

Year ended January 31, 1986	Historical	Current
Net sales	**$2,072,569**	**$2,072,569**
Cost of sales	1,560,373	1,560,485
Gross margin	**512,196**	**512,084**
Expenses:		
Selling, general and administrative	343,346	343,346
Depreciation	21,759	24,696
Employee benefits	22,719	22,719
Interest	11,507	11,507
Total expenses	**399,331**	**402,268**
Pre-tax earnings	**112,865**	**109,816**
Income tax provision	53,151	53,151
Net earnings	**$ 59,714**	**$ 56,665**
Effective income tax rate	**47.1%**	**48.4%**
Other information:		
Purchasing power gain from holding net monetary liabilities during the year		$ 6,007
Increase in specific prices (current costs) of inventories and property, improvements, and equipment held during the year*		$ 2,554
Effect of increase in general price level of inventories and property, improvements, and equipment		$ 22,808
Excess of increase in the general price level over increase in specific prices		$ 20,254

*At January 31, 1986, current cost of inventory was $339,676 (historical amount, $313,143) and current cost of property, improvements, and equipment, net of accumulated depreciation, was $360,146 (historical amount, $308,603).

Five-year comparison of selected supplementary financial data adjusted for effects of changing prices (in average Fiscal 1985 constant dollars):

Dollars in thousands, except per share data

Year ended January 31,	1986	1985	1984	1983	1982
Net sales:					
Historical dollars	$2,072,569	$1,688,738	$1,430,576	$ 1,034,032	$ 888,042
Adjusted for general inflation	2,072,569	1,748,262	1,543,751	1,151,373	1,049,073
Net earnings:					
Historical dollars	59,714	61,443	50,615	25,131	17,859
Current cost dollars	56,665	60,644	51,326	24,033	11,226
Net assets (shareholders' equity) at year-end:					
Historical dollars	407,373	341,349	291,505	198,783	177,501
Current cost dollars	477,963	429,420	391,473	303,381	284,481
Purchasing power gain from holding net monetary liabilities during the year	6,007	2,681	3,186	2,194	4,430
Excess of increase in the general price level over increase in specific prices	20,254	13,412	11,161	2,895	13,415
Earnings per share:					
Historical dollars	1.64	1.70	1.40	.75	.55
Current cost dollars	1.55	1.68	1.42	.73	.34
Net assets (shareholders' equity) at year-end per share:					
Historical dollars	11.16	9.41	8.04	5.96	5.45
Current cost dollars	13.09	11.85	10.80	8.37	8.53
Cash dividends declared per common share:					
Historical dollars	.36	.32	.32	.29	.29
Adjusted for general inflation	.36	.33	.34	.33	.34
Market price per common share at year-end:					
Historical dollars	28.50	27.75	20.75	19.27	8.40
Adjusted for general inflation	$ 28.05	$ 28.37	$ 21.97	$ 21.25	$ 9.62
Average Consumer Price index — urban[1]	323.2	312.0	299.4	289.9	274.2

[1]Base period, 1967=100

Selected financial data

Lowe's Companies, Inc. and subsidiary companies
Dollars in thousands, except per share data

Year ended January 31,	1986	1985	1984	1983	1982	1981
Selected income statement data:						
Net sales	$2,072,569	$1,688,738	$1,430,576	$1,034,032	$ 888,042	$ 883,614
Cost of sales	1,560,373	1,262,394	1,071,437	772,986	667,610	677,974
Gross margin	**512,196**	**426,344**	**359,139**	**261,046**	**220,432**	**205,640**
Expenses:						
Selling, general and administrative	343,346	269,347	231,732	187,199	164,786	144,312
Depreciation	21,759	14,805	12,034	11,178	10,522	10,320
Employee benefits	22,719	20,802	17,114	10,666	8,932	10,528
Interest	11,507	2,314	1,368	4,478	2,966	4,203
Total expenses	**399,331**	**307,268**	**262,248**	**213,521**	**187,206**	**169,363**
Pre-tax earnings	**112,865**	**119,076**	**96,891**	**47,525**	**33,226**	**36,277**
Income tax provision:						
State	6,803	7,042	5,619	2,996	2,009	2,128
Federal	46,348	50,591	40,657	19,398	13,358	15,258
Total income taxes	**53,151**	**57,633**	**46,276**	**22,394**	**15,367**	**17,386**
Net earnings	**$ 59,714**	**$ 61,443**	**$ 50,615**	**$ 25,131**	**$ 17,859**	**$ 18,891**
Earnings per common share*	**$ 1.64**	**$ 1.70**	**$ 1.40**	**$ .75**	**$ .55**	**$ .58**
Shares outstanding**	36,509	36,248	36,193	33,333	32,555	32,555
Dividends paid per share*	**$ .36**	**$ .32**	**$ .32**	**$ .29**	**$ .29**	**$ .24**
Investment tax credit recognized	$ 2,552	$ 1,513	$ 1,328	$ 1,086	$ 993	$ 519
Selected balance sheet data:						
Current assets	$ 534,649	$ 432,370	$ 377,572	$ 271,535	$ 195,370	$ 209,756
Current liabilities	251,669	189,418	168,830	134,999	80,199	80,781
Working capital	**$ 282,980**	**$ 242,952**	**$ 208,742**	**$ 136,536**	**$115,171**	**$128,975**
Total assets	**$ 857,389**	**$ 635,344**	**$ 520,910**	**$ 393,500**	**$306,564**	**$301,728**
Long-term debt, including current maturities	**$ 192,582**	**$ 99,571**	**$ 57,749**	**$ 61,864**	**$ 53,280**	**$ 56,086**
Shareholders' equity	**$ 407,373**	**$ 341,348**	**$ 291,505**	**$ 198,783**	**$177,501**	**$169,018**

Selected quarterly data

Three months ended	January 31	October 31	July 31	April 30
Fiscal 1985				
Net sales	$475,572	$549,031	$595,636	$452,330
Gross margin	120,010	132,552	148,312	111,322
Net earnings	11,318	15,588	20,920	11,888
Earnings per share*	.31	.43	.58	.33
Fiscal 1984				
Net sales	$375,858	$447,702	$484,880	$380,298
Gross margin	98,960	112,785	120,358	94,241
Net earnings	10,505	17,665	20,543	12,730
Earnings per share*	.29	.49	.57	.35
Fiscal 1983				
Net sales	$331,026	$381,961	$418,057	$299,532
Gross margin	85,701	95,941	103,870	73,627
Net earnings	9,514	14,173	18,258	8,670
Earnings per share*	.26	.39	.50	.24
Fiscal 1982				
Net sales	$250,069	$277,627	$291,576	$214,760
Gross margin	64,304	70,892	72,895	52,955
Net earnings	5,365	8,040	8,513	3,213
Earnings per share*	.16	.24	.25	.10

*Retroactive effect has been given to the five-for-three stock split in the form of a dividend payable to shareholders of record on April 14, 1983, and the three-for-two stock split in the form of a dividend in Fiscal 1981.
**Weighted average

Profitability model

Fiscal 1985 figures*; dollars in millions

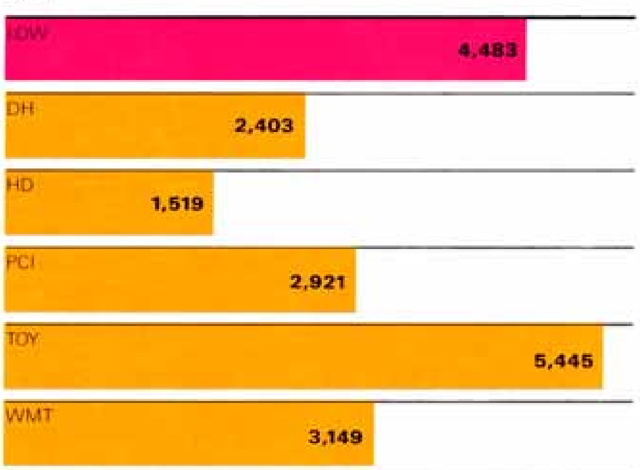
Sales, profit assets, equity	Organization (Stock symbol)	Sales	Profit	Beginning assets	Ending assets	Beginning shareholders' equity	Ending shareholders' equity
	Lowe's (LOW)	**$2,072.6**	**$ 59.7**	**$ 635.3**	**$ 857.4**	**$ 341.3**	**$ 407.4**
	Dayton Hudson (DH)	8,793.4	283.6	3,799.9	4,417.5	1,736.6	1,947.4
	Home Depot (HD)	700.7	8.2	247.9	380.2	80.2	89.1
	Payless Cashways (PCI)	1,388.4	38.1	553.8	605.8	257.2	332.9
	Toys R Us (TOY)	1,976.1	119.8	1,098.6	1,226.0	579.1	714.7
	Wal-Mart (WMT)	$ 8,451.5	$ 327.5	$2,205.2	$ 3,103.6	$ 984.7	$1,277.7

ROE calculation		Asset[1] turnover	×	Return[2] on sales	=	Return[3] on assets	×	Leverage[4] factor	=	Return[5] on equity
	Lowe's (LOW)	**3.26**		**2.88%**		**9.39%**		**1.86**		**17.47%**
	Dayton Hudson (DH)	2.31		3.23		7.46		2.19		16.34
	Home Depot (HD)	2.83		1.17		3.31		3.09		10.23
	Payless Cashways (PCI)	2.51		2.74		6.88		2.15		14.79
	Toys R Us (TOY)	1.80		6.06		10.91		1.90		20.73
	Wal-Mart (WMT)	3.83		3.88%		14.86%		2.24		33.29%

Employees		Number[6] of employees	Sales[7] per employee	Profit[8] per employee
	Lowe's (LOW)	**13,317**	**$155,636**	**$4,483**
	Dayton Hudson (DH)	118,000	74,520	2,403
	Home Depot (HD)	5,400	129,759	1,519
	Payless Cashways (PCI)	13,042	106,456	2,921
	Toys R Us (TOY)	22,000	89,823	5,445
	Wal-Mart (WMT)	104,000	$ 81,264	$ 3,149

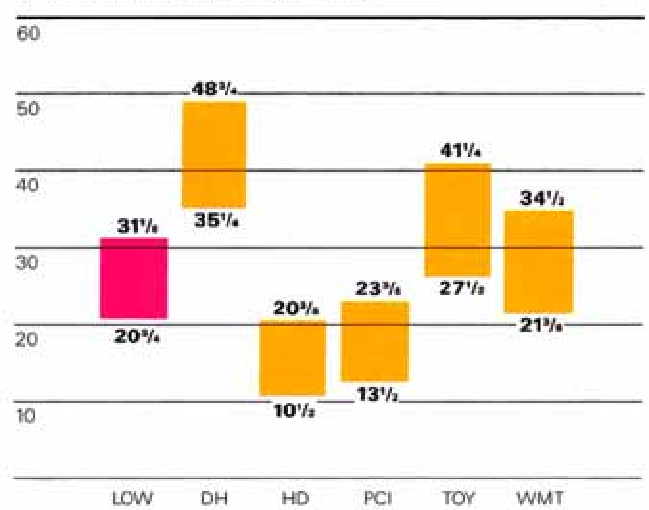
*Lowe's year ended 1/31. Dayton Hudson ended 2/1, Home Depot ended 2/2 and Payless ended 11/30. Toys ended 2/2 and Wal-Mart ended 1/31.
[1]Total sales divided by beginning assets
[2]Total profit divided by total sales
[3]Total profit divided by beginning assets
[4]Beginning assets divided by beginning equity
[5]Total profit divided by beginning equity
[6]At year-end
[7]Total sales divided by number of employees
[8]Total profit divided by number of employees

Profit per employee
Dollars



LOW Lowe's
DH Dayton Hudson
HD Home Depot
PCI Payless Cashways
TOY Toys R Us
WMT Wal-Mart

Stock price range
52-week low to high ending on January 31, 1986



Source: *The Wall Street Journal*, February 3, 1986

Quarterly review of performance

Earnings statements
Dollars in thousands

Three months ended	1/31/86	10/31/85	7/31/85	4/30/85	1/31/85	10/31/84	7/31/84	4/30/84
	Fiscal 1985				Fiscal 1984			
Net sales	**$475,572**	**$549,031**	**$595,636**	**$452,330**	**$375,858**	**$447,702**	**$484,880**	**$380,298**
FIFO gross margin	116,565	131,052	148,500	112,634	96,274	111,184	120,558	95,642
LIFO credit (charge)	3,445	1,500	(188)	(1,312)	2,686	1,601	(200)	(1,401)
LIFO gross margin	**120,010**	**132,552**	**148,312**	**111,322**	**98,960**	**112,785**	**120,358**	**94,241**
Expenses:								
S, G & A	85,242	87,993	92,818	77,293	67,184	69,457	71,189	61,517
Depreciation	6,430	5,538	5,590	4,201	4,760	3,450	3,400	3,195
Employee benefits	5,089	5,941	5,895	5,794	4,973	5,256	5,863	4,710
Interest expense	2,488	3,345	3,926	1,748	620	573	561	560
Total expenses	**99,249**	**102,817**	**108,229**	**89,036**	**77,537**	**78,736**	**81,013**	**69,982**
Pre-tax earnings	20,761	29,735	40,083	22,286	21,423	34,049	39,345	24,259
Income tax provision	9,443	14,147	19,163	10,398	10,918	16,384	18,802	11,529
Net earnings	**$ 11,318**	**$ 15,588**	**$ 20,920**	**$ 11,888**	**$ 10,505**	**$ 17,665**	**$ 20,543**	**$ 12,730**

Earnings statement changes
Percent change from same quarter prior year, to nearest tenth percent

Three months ended	1/31/86	10/31/85	7/31/85	4/30/85	1/31/85	10/31/84	7/31/84	4/30/84
	Fiscal 1985				Fiscal 1984			
Net sales	**26.5%**	**22.6%**	**22.8%**	**18.9%**	**13.5%**	**17.2%**	**16.0%**	**27.0%**
FIFO gross margin	21.1	17.9	23.2	17.8	12.8	14.6	13.1	26.0
LIFO credit (charge)	28.3	6.3	(6.0)	(6.4)	594.1	249.2	(92.7)	(38.1)
LIFO gross margin	**21.3**	**17.5**	**23.2**	**18.1**	**15.5**	**17.6**	**15.9**	**28.0**
Expenses:								
S, G & A	26.9	26.7	30.4	25.6	11.5	15.1	17.4	21.8
Depreciation	35.1	60.5	64.4	31.5	49.6	13.3	14.5	12.7
Employee benefits	2.3	13.0	.5	23.0	4.6	4.9	36.6	54.1
Interest expense	301.3	483.8	599.8	212.1	1092.3	164.1	8.3	(3.6)
Total expenses	**28.0**	**30.6**	**33.6**	**27.2**	**13.6**	**14.7**	**18.5**	**22.8**
Pre-tax earnings	(3.1)	(12.7)	1.9	(8.1)	22.6	24.7	10.9	45.8
Income tax provision	(13.5)	(13.7)	1.9	(9.8)	37.2	24.7	9.2	44.7
Net earnings	**7.7%**	**(11.8)%**	**1.8%**	**(6.6)%**	**10.4%**	**24.6%**	**12.5%**	**46.8%**

Earnings statement analysis
Percent total sales to nearest hundredth; income tax is percent of pre-tax earnings

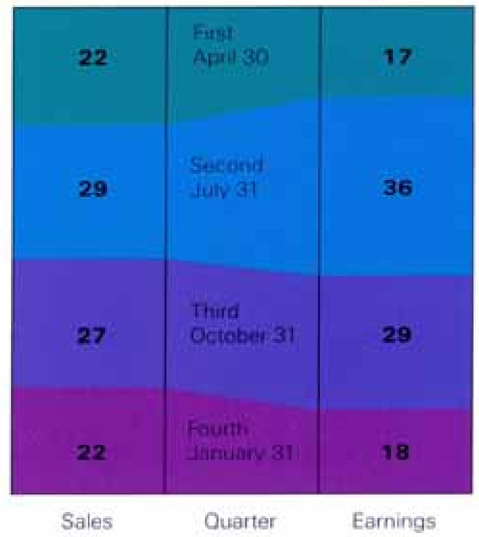
Three months ended	1/31/86	10/31/85	7/31/85	4/30/85	1/31/85	10/31/84	7/31/84	4/30/84
	Fiscal 1985				Fiscal 1984			
Net sales	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
FIFO gross margin	24.51	23.87	24.93	24.90	25.61	24.83	24.86	25.15
LIFO credit (charge)	.72	.27	(.03)	(.29)	.72	.36	(.04)	(.37)
LIFO gross margin	**25.23**	**24.14**	**24.90**	**24.61**	**26.33**	**25.19**	**24.82**	**24.78**
Expenses:								
S, G & A	17.92	16.02	15.58	17.08	17.87	15.51	14.68	16.17
Depreciation	1.35	1.01	.94	.93	1.27	.77	.70	.84
Employee benefits	1.07	1.08	.99	1.28	1.32	1.17	1.21	1.24
Interest expense	.52	.61	.66	.39	.17	.13	.12	.15
Total expenses	**20.86**	**18.72**	**18.17**	**19.68**	**20.63**	**17.58**	**16.71**	**18.40**
Pre-tax earnings	4.37	5.42	6.73	4.93	5.70	7.61	8.11	6.38
Income tax provision	45.48	47.58	47.81	46.66	50.96	48.12	47.79	47.52
Net earnings	**2.38%**	**2.84%**	**3.51%**	**2.63%**	**2.80%**	**3.95%**	**4.24%**	**3.35%**

Customer sales profile
Dollars in millions, rounded totals

	Fiscal 1985			Fiscal 1984		
	Change	Sales	% of Total	Change	Sales	% of Total
1st Quarter						
RC[1]	+ 31%	$ 243.8	54%	+ 21%	$ 185.7	49%
PC[2]	+ 7	208.5	46	+ 33	194.6	51
Totals	**+19**	**452.3**	**100**	**+27**	**380.3**	**100**
2nd Quarter						
RC	+ 23	319.0	54	+ 21	258.5	53
PC	+ 22	276.6	46	+ 11	226.4	47
Totals	**+23**	**595.6**	**100**	**+16**	**484.9**	**100**
3rd Quarter						
RC	+ 19	277.7	51	+ 23	233.7	52
PC	+ 27	271.3	49	+ 12	214.0	48
Totals	**+23**	**549.0**	**100**	**+17**	**447.7**	**100**
4th Quarter						
RC	+ 22	246.9	52	+ 22	203.0	54
PC	+ 32	228.7	48	+ 5	172.8	46
Totals	**+27%**	**$475.6**	**100%**	**+14%**	**$375.8**	**100%**

1) RC: sales to retail customers (cash or non-recourse credit).
2) PC: sales to professional builder customers (Lowe's-extended credit).

1980–1985 sales and earnings
Percent of the total year — a six-year average



Store sales profile
Dollars in millions, rounded totals

	Fiscal 1985					Fiscal 1984				
	Change	Sales	% of Total	Stores	Per store average	Change	Sales	% of Total	Stores	Per store average
1st Quarter										
Comparable stores[1]	**+11%**	**$422.1**	**93%**	**238**	**$1.8**	+ 25%	$ 374.3	98%	233	$ 1.6
New stores[2]		30.2	7	37	.8		6.0	2	5	1.2
Total sales	**+19**	**452.3**	**100**	**275**	**1.6**	**+27**	**380.3**	**100**	**238**	**1.6**
2nd Quarter										
Comparable stores	**+ 9**	**527.2**	**89**	**241**	**2.2**	+ 14	474.3	98	233	2.0
New stores		68.4	11	37	1.8		10.6	2	8	1.3
Total sales	**+23**	**595.6**	**100**	**278**	**2.1**	**+16**	**484.9**	**100**	**241**	**2.0**
3rd Quarter										
Comparable stores	**+ 8**	**483.4**	**88**	**242**	**2.0**	+ 14	435.2	97	233	1.9
New stores		65.6	12	38	1.7		12.5	3	9	1.4
Total sales	**+23**	**549.0**	**100**	**280**	**2.0**	**+18**	**447.7**	**100**	**242**	**1.9**
4th Quarter										
Comparable stores	**+13**	**424.7**	**89**	**248**	**1.7**	+ 12	369.6	98	238	1.6
New stores		50.9	11	38	1.3		6.2	2	10	.6
Total sales[3]	**+27%**	**$475.6**	**100%**	**286**	**$1.7**	**+14%**	**$375.8**	**100%**	**248**	**$1.5**

1) Comparable stores: stores which have been open for one year or more at the end of the quarter.
2) New stores: stores which have been open for less than a year at the end of the quarter.
3) Includes four stores closed 1/31/86.

Stock performance

Lowe's quarterly stock price range and cash dividend payment*

	Fiscal 1985			Fiscal 1984			Fiscal 1983		
	High	Low	Dividend	High	Low	Dividend	High	Low	Dividend
1st quarter — NYSE, PSE	$30.00	$25.63	$.09	$21.75	$17.63	$.08	$25.00	$18.45	$.08
2nd quarter — NYSE, PSE	31.13	24.00	.09	22.13	16.25	.08	32.75	22.63	.08
3rd quarter — NYSE, PSE	25.88	20.88	.09	24.50	17.25	.08	27.63	20.25	.08
4th quarter — NYSE, PSE	$28.63	$22.00	$.09	$29.63	$23.13	$.08	$25.00	$20.25	$.08

*As restated for a five-for-three split to shareholders of record April 14, 1983.
NYSE: New York Stock Exchange
PSE: Pacific Stock Exchange

(Lowe's shares are also listed on the London Stock Exchange.)
Source: *Monthly Market Statistics Report*, New York Stock Exchange

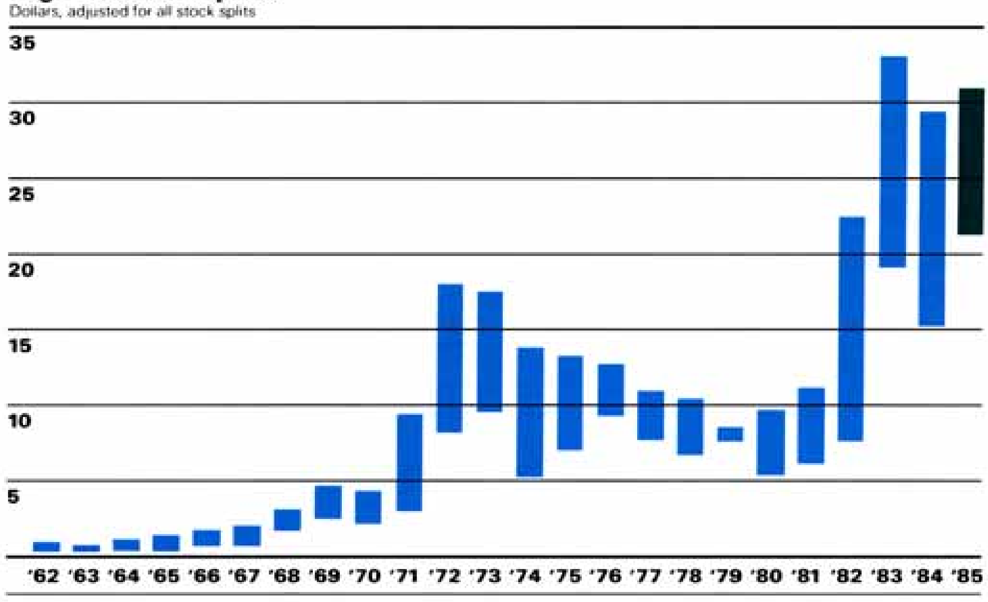
Monthly stock price and trading volume

	Fiscal 1985			Fiscal 1984		
	High	Low	Shares traded	High	Low	Shares traded
February	$30	$27	1,494,400	$21 1/2	$17 5/8	1,900,600
March	29 1/4	26 3/8	1,226,900	21 3/4	18 1/2	1,997,900
April	27	25 5/8	693,700	20	18	1,475,000
May	31 1/8	26 1/8	1,421,300	21 1/4	17 1/2	835,500
June	29 1/4	24	1,864,900	22 1/8	17 5/8	1,319,770
July	29 1/4	24 1/2	1,385,000	21 1/4	16 1/4	1,178,600
August	25 7/8	22 5/8	1,250,600	23	17 1/4	2,945,720
September	24 1/4	21 1/8	965,700	22 3/4	19 1/4	1,184,100
October	23	20 7/8	1,425,700	24 1/2	20 3/8	1,629,200
November	25 3/4	22	1,862,100	25	23 1/8	1,737,400
December	25 7/8	22 3/8	2,277,700	25 1/8	23 3/4	946,500
January	$28 5/8	$24 1/8	2,794,200	$29 5/8	$24 3/8	2,307,400

Source: *Monthly Market Statistics Report*, New York Stock Exchange

High–low stock price*

Dollars, adjusted for all stock splits



*Based on fiscal years, prior to '73 year-end July 31.
Source: *Monthly Market Statistics Report*, New York Stock Exchange; *The Wall Street Journal*

Results of 1984 shareholder survey

Which sections of the January 31, 1985, annual report did you read?	
All of the report	53%
Photo section	31
Boise article	29
Stores and expansion	38
Customer analysis	23
Product analysis	21
Dynamics of the changing market	24
Growth of the South	23
Dynamics of the competition	23
Financials	33
Other	5%
Ratings of the quality of the annual report sections (5-point scale) 5 = outstanding:	
All of the report	4.5
Photo section	4.4
Boise article	4.3
Stores and expansion	4.3
Customer analysis	4.2
Product analysis	4.1
Dynamics of the changing market	4.2
Growth of the South	4.2
Dynamics of the competition	4.2
Financials	4.3
Other	4.2
Overall rating on 5-point scale:	4.4
Status of respondent as a shareholder:	Yes — 96%, No — 4%
As a present or potential shareholder what is or would be your primary reason for holding or buying Lowe's stock?	
Price appreciation	62%
Appreciation and dividends	34
Dividend income	2
Other	3%
If you own stock, which category best describes your ownership interest?	
Individual	
Shareholder of record	43%
Street name	31
Employee stock ownership participant	21
Analyst for company owning Lowe's stock	2
Money manager for company owning Lowe's stock	2%
Which of the following do you consider the most important criteria regarding dividends?	
Annual dividend growth	51%
Yield on original investment	32
Not interested in dividends	13
Dividend never reduced	4%
How did you first become aware of Lowe's?	
Employee or store	34%
Investment publication	18
Other	16
Stockbroker	15
News articles	7
Shareholder	7
Annual reports	4
This is my first exposure	1%
From which of the following groups does your primary interest stem?	
Individual investor	41%
Employee	25
Stockbroker	8
Security analyst	7
Retired or former employee	6
Financial advisor	5
Financial media	5
Other	4
Investment club	3
Supplier	3
Financial institution	1
Trade media	1%
Are you male or female?	Male — 85%, Female — 15%
In which age group would you be listed?	
Under 30	15%
30-40	20
41-50	17
51-65	27
Over 65	22%
Which of the following most closely describes your present occupation?	
Executive, administrator, manager	39%
Professional specialty/doctor, lawyer, etc.	15
Retired	13
Sales	12
Laborer	5
Clerical	4
Technician	4
Transportation	4
Machine operator	2
Housewife	1
Precision laborer	1
Protective service	1%

Shareholder analysis

State	Holders	Shares
Alabama*	113	16,360
Alaska	5	1,380
Arizona	16	2,269
Arkansas*	28	2,352
California	100	275,456
Colorado	15	3,898
Connecticut	48	30,119
Delaware*	39	22,399
District of Columbia	16	23,824
Florida*	203	147,218
Georgia*	240	147,907
Hawaii	3	886
Idaho	5	2,345
Illinois*	84	1,010,364
Indiana*	41	19,194
Iowa	8	8,115
Kansas	17	4,466
Kentucky*	89	17,934
Louisiana*	96	30,656
Maine	15	5,520
Maryland*	133	64,899
Massachusetts	89	118,664
Michigan	52	18,350
Minnesota	26	30,294
Mississippi*	71	15,832
Missouri*	47	32,811
Montana	4	3,606
Nebraska	6	36,265
Nevada	1	100
New Hampshire	8	3,591
New Jersey	100	28,571
New Mexico	5	4,394
New York	164	19,674,977
North Carolina*	2,795	4,028,427
Ohio*	117	159,638
Oklahoma*	16	2,890
Oregon	8	1,054
Pennsylvania*	131	786,524
Rhode Island	72	130,820
South Carolina*	298	122,300
South Dakota	1	1
Tennessee*	207	98,682
Texas*	95	109,061
Utah	1	75
Vermont	4	3,858
Virginia*	465	395,525
Washington	10	1,358
West Virginia*	84	27,251
Wisconsin	23	6,152
Wyoming	1	2,000
Canada	18	7,176
International**	20	30,406
	6,253* **	**27,718,214**
Employees in profit-sharing trust***	1,490	2,542,613
Employees in stock ownership plan and trust***	9,800	6,821,621
Total	**16,053**	**37,082,448**

*Indicates state with Lowe's store.
**Does not include international holdings in New York-based street-name accounts.
***In computing shareholders of record, the two trusts are counted as one shareholder each.

Directors

From left are Jack C. Shewmaker, Petro Kulynych, Leonard G. Herring, Robert L. Strickland, Richard Elledge (corporate secretary), Robert G. Schwartz, Gordon E. Cadwgan, and William H. McElwee.

Gordon E. Cadwgan
Director since 1961, age 72
Chairman of Audit Committee, Member of Compensation Committee and Member of Stock Option Committee of the Board.
Trustee and Financial Consultant; affiliated with Tucker, Anthony & R.L. Day, Inc., Boston, Mass., since February, 1979; Director, Leach & Garner Company, Attleboro, Mass.; Fellow Emeritus, Brown University, Providence, R.I.; Director, Bevis Industries, Inc. (Tubing, Rotary Blowers, and Pumps), Providence, R.I.; Director, Third Century Fund, Inc., Providence, R.I.

Leonard G. Herring
Director since 1956, age 58
President and Chief Executive Officer since 1978.
Director, First Union Corporation, Charlotte, N.C., since January, 1986; Director, Northwestern Financial Corporation, North Wilkesboro, N.C., 1969–1985; Trustee, Pfeiffer College, Misenheimer, N.C.; Member, North Carolina Business Council of Management and Development, Inc., Raleigh, N.C.

Petro Kulynych
Director since 1952, age 64
Chairman of Stock Option Committee and Member of Audit Committee of the Board; Managing Director 1978–1983 (retired December, 1983).
Director, North Wilkesboro Federal Savings & Loan Association, North Wilkesboro, N.C., since 1974; Director, North Carolina Council on Economic Education, Greensboro, N.C.; Member, Medical Center Board of Visitors, Bowman Gray School of Medicine, Wake Forest University, North Carolina Baptist Hospital, Inc., Winston-Salem, N.C.; Chairman and Commissioner, Wilkes Airport Authority, Wilkesboro, N.C.; Director, Carolina Motor Club, Inc., Charlotte, N.C.; Trustee, Wake Forest University, Winston-Salem, N.C.

William H. McElwee, Sr.
Director since 1961, age 78
Managing Director and General Counsel since November, 1980; Member of Compensation Committee of the Board.
Partner, McElwee, McElwee, Cannon & Warden (Attorneys-at-Law), North Wilkesboro, N.C.; Member Emeritus, North Carolina Board of Law Examiners, Raleigh, N.C.; Trustee, Davis Hospital Endowment Fund, Statesville, N.C.; Member of Local Board, North Carolina National Bank, North Wilkesboro, N.C.; Member of the Board, Legal Advisors of the Southeast Legal Foundations, Inc., Atlanta, Ga.; Fellow, American College of Trial Lawyers, Los Angeles, Calif.

Robert G. Schwartz
Director since 1973, age 58
Chairman of Compensation Committee, Member of Audit Committee and Member of Stock Option Committee of the Board.
Metropolitan Life Insurance Company, New York, N.Y.; Chairman of the Board since 1983; Chairman of the Investment Committee since 1980; Vice Chairman of the Board and Director, 1980–1983; Director, Potlatch Corporation (Paper and Forest Products), San Francisco, Calif., since 1973; Director, Kaiser Cement Corporation (Cement), Oakland, Calif., since 1977; Director, NL Industries, Inc. (Petroleum Services, Chemicals, Metals), New York, N.Y., since 1980; Director, R.H. Macy & Company, Inc. (Department Stores), New York, N.Y., since 1982; Director, State Street Research and Management Company, Boston, Mass., since 1983; Trustee, Committee for Economic Development, Washington, D.C.; Trustee, Greater New York Councils Boy Scouts of America, New York, N.Y.; Chairman, Investment Advisory Committee, Christopher's, Inc., New York, N.Y.

Jack C. Shewmaker
Director since 1985, age 48
Member of Compensation Committee of the Board.
Wal-Mart Stores, Inc. (Discount Retail Chain), Bentonville, Ark.; Vice Chairman of the Board and Chief Financial Officer since 1984; Director since 1977; Member of Executive Committee; President and Chief Operating Officer, 1978–1984; National Mass Retailing Institute; Director; Member of Executive Committee; Member of Convention Committee; Member, Board of Trustees, Drury College, Springfield, Mo.

Robert L. Strickland
Director since 1961, age 55
Chairman of the Board since 1978.
Director, Revelstoke Companies, Ltd. (Lumber Mills, Retail Building Materials and Ready-Mix Concrete Plants), Calgary, Alberta, Canada, since 1976; Director and Past Chairman, Do-It-Yourself Research Institute, Indianapolis, Ind.; Director, The Home Center Institute, Indianapolis, Ind.; Chairman, The Employee Stock Ownership Assn., Washington, D.C.; Director, Council of Better Business Bureaus, Inc., Washington, D.C.; Director, The Committee of Publicly Owned Companies, New York, N.Y.; Board of Visitors, Babcock Graduate School of Management, Wake Forest University, Winston-Salem, N.C.; Board of Advisors, Fuqua School of Business, Duke University, Durham, N.C.

Company officers

Richard D. Elledge
Vice President, Secretary and Controller

Wendell R. Emerine
Executive Vice President

Leonard G. Herring
President and Chief Executive Officer

Arnold N. Lakey
Vice President, Credit

William H. McElwee, Sr.
Managing Director and General Counsel

W. Nathan Mitchell
Assistant Secretary

Dwight E. Pardue, Sr.
Senior Executive Vice President, Real Estate

William F. Reins
Assistant Treasurer

Robert L. Strickland
Chairman of the Board

Harry B. Underwood II
Senior Vice President, Finance and Treasurer

John W. Vining, Jr.
Vice President, Administration

William C. Warden, Jr.
Assistant Secretary

Investor information

Dividend declaration dates
Usually the middle of each quarter to shareholders of record approximately 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:
Vicki Decker
(919) 770-6190

Dividend reinvesting agent
Wachovia Bank & Trust Co., NA
Box 3001
Winston-Salem, NC 27102-3001
Information contact:
Susan Holston
(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 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
(919) 651-4631

or Clarissa A. Story
(919) 651-4254

Lowe's Companies, Inc.
Box 1111
North Wilkesboro, NC 28656-0001
(919) 651-4000
Telex 510-922-5737

Annual meeting date
May 30, 1986 at 10:00 a.m.
Lowe's Corporate Offices
North Wilkesboro, NC

Stock transfer agents
Wachovia Bank & Trust Co., NA
Box 3001
Winston-Salem, NC 27102-3001
Information contact:
J. Carter Bailey, Jr.
(919) 770-5822

Morgan Guaranty Trust Co.
30 West Broadway
New York, NY 10015
Information contact:
Gregory S. Burns
(212) 587-6351

Stock registrars
Wachovia Bank & Trust Co., NA
Box 3001
Winston-Salem, NC 27102-3001

The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, NY 10005

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, EC2N1HP England

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

Certified public accountants
Deloitte Haskins & Sells
2100 Southern National Center
Charlotte, NC 28202
(704) 372-3560

Disclosure policy
Lowe's Companies, Inc., for more than 24 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 review

LIFO accounting

5-year performance

Fiscal years end January 31 of following calendar year except fiscal years prior to 1975 which ended July 31.

	5-Year CGR	Fiscal 1985	Fiscal 1984	Fiscal 1983	Fiscal 1982	Fiscal 1981
Stores and people						
1 Number of stores	5.7%	282	248	238	235	229
2 Square footage	12.8	3,641,762	2,980,000	2,529,040	2,337,351	2,232,008
3 Number of employees	17.5	13,317	10,727	8,715	7,080	6,003
4 Customers served (thousands)	22.6%	31,477	23,938	18,889	15,075	11,973
5 Average customer purchase		$65.80	$70.55	$75.74	$68.59	$74.17
Comparative income statement (thousands)						
6 Total sales	**18.6%**	**$2,072,569**	**$1,688,738**	**$1,430,576**	**$1,034,032**	**$888,042**
7 Pre-tax earnings	25.5	112,865	119,076	96,891	47,525	33,226
8 Taxes on income	25.0	53,151	57,633	46,276	22,394	15,367
9 Net earnings	**25.9**	**59,714**	**61,443**	**50,615**	**25,131**	**17,859**
10 Cash flow [2]	23.7	84,452	79,691	66,575	39,794	28,381
11 Cash dividends paid	11.1	13,199	11,600	11,600	9,800	9,376
12 Earnings retained	33.2%	$ 46,515	$ 49,843	$ 39,015	$ 15,331	$ 8,483
Dollars per share (weighted average number of shares)						
13 Sales	15.9%	$56.77	$46.59	$39.47	$31.02	$27.28
14 Earnings	**23.1**	**1.64**	**1.70**	**1.40**	**.75**	**.55**
15 Cash flow [2]	20.7	2.31	2.20	1.84	1.19	.87
16 Cash dividends	**8.4**	**.36**	**.32**	**.32**	**.29**	**.29**
17 Earnings retained	30.2	1.27	1.38	1.08	.46	.26
18 Shareholders' equity	16.5%	$11.16	$ 9.42	$ 8.04	$ 5.96	$ 5.45
Strategic profit model [5]						
19 Asset turnover (sales per asset dollar)		$ 3.26	$ 3.24	$ 3.64	$ 3.37	$ 2.94
20 Return on sales (net earnings as percent of sales)		× 2.88%	× 3.64%	× 3.54%	× 2.43%	× 2.01%
21 Return on assets		= 9.39%	= 11.79%	= 12.89%	= 8.19%	= 5.91%
22 Leverage factor (asset dollars per equity dollar)		× 1.86	× 1.79	× 1.98	× 1.73	× 1.79
23 Return on shareholders' equity		= 17.47%	= 21.10%	= 25.52%	= 14.17%	= 10.58%
Comparative balance sheet (thousands)						
24 Total current assets	20.6%	$ 534,649	$ 432,370	$ 377,572	$ 271,535	$ 195,370
25 Cash and short-term investments	41.1	87,190	84,204	74,249	25,341	32,070
26 Accounts receivable – net	13.4	127,603	97,319	94,658	75,388	48,107
27 Inventories (lower of cost or market)	20.1	313,143	248,268	205,100	167,535	113,529
28 Other current assets	49.0	6,713	2,579	3,565	3,271	1,664
29 Fixed assets	27.6	308,603	195,237	141,238	121,406	110,673
30 Other assets	89.9	14,137	7,737	2,100	559	521
31 Total assets	**23.2**	**857,389**	**635,344**	**520,910**	**393,500**	**306,564**
32 Total current liabilities	25.5	251,669	189,418	168,830	134,999	80,199
33 Accounts payable	26.4	168,068	125,003	110,415	90,580	47,959
34 Income taxes payable	NM	2,317	550	5,074	5,470	2,798
35 Other current liabilities	22.5	81,284	63,865	53,341	38,949	29,442
36 Long-term debt (excluding current portion)	28.8	183,909	92,488	51,891	56,233	48,864
37 Total liabilities	**27.6**	**448,818**	**292,760**	**228,132**	**194,717**	**129,063**
38 Shareholders' equity	**19.2%**	**$407,373**	**$341,348**	**$291,505**	**$198,783**	**$177,501**
39 Equity divided by long-term debt (excluding current portion)		2.22	3.69	5.62	3.53	3.63
40 Year-end leverage factor: assets divided by equity		2.10	1.86	1.79	1.98	1.73
Shareholders and shares						
41 Shareholders of record, year-end		6,253	6,372	5,928	5,144	5,415
42 Shares outstanding, year-end (thousands) [3]		37,082	36,248	36,248	33,333	32,555
Stock price range during year [4]						
43 High (adjusted for stock splits)		$31.13	$29.63	$32.75	$22.35	$11.36
44 Low (adjusted for stock splits)		$20.88	$16.25	$18.45	$ 7.65	$ 6.30
Price earnings ratio						
45 High		19	17	23	30	21
46 Low		13	10	13	10	11

FIFO accounting

5-year performance

Fiscal 1980	5-Year CGR	Fiscal 1985	Fiscal 1984	Fiscal 1983	Fiscal 1982	Fiscal 1981	Fiscal 1980	Line #
214	5.7%	282	248	238	235	229	214	1
1,998,239	12.8	3,641,762	2,980,000	2,529,040	2,337,351	2,232,008	1,998,239	2
5,950	17.5	13,317	10,727	8,715	7,080	6,003	5,950	3
11,376	22.6%	31,477	23,938	18,889	15,075	11,973	11,376	4
$77.67		$65.80	$70.55	$75.74	$68.59	$74.17	$77.67	5
$883,614	**18.6%**	**$2,072,569**	**$1,688,738**	**$1,430,576**	**$1,034,032**	**$ 888,042**	**$ 883,614**	6
36,277	20.6	109,420	116,390	102,575	49,151	34,146	42,964	7
17,386	20.0	51,429	56,290	49,065	23,195	15,820	20,679	8
18,891	**21.1**	**57,991**	**60,100**	**53,510**	**25,956**	**18,326**	**22,285**	9
29,211	20.5	82,729	78,348	69,470	40,619	28,848	32,605	10
7,813	11.1	13,199	11,600	11,600	9,800	9,376	7,813	11
$ 11,078	25.4%	$ 44,792	$ 48,500	$ 37,465	$ 16,156	$ 8,950	$ 14,472	12
$27.14	15.9%	$56.77	$46.59	$39.47	$31.02	$27.28	$27.14	13
.58	**18.5**	**1.59**	**1.66**	**1.48**	**.78**	**.56**	**.68**	14
.90	17.8	2.27	2.16	1.92	1.22	.89	1.00	15
.24	**8.5**	**.36**	**.32**	**.32**	**.29**	**.29**	**.24**	16
.34	22.8	1.23	1.34	1.16	.48	.27	.44	17
$ 5.19	15.7%	$11.50	$ 9.81	$ 8.47	$ 6.34	$ 5.82	$ 5.54	18
$ 2.95		$ 3.12	$ 3.06	$ 3.42	$ 3.13	$ 2.74	$ 2.80	19
× 2.14%		× 2.80%	× 3.56%	× 3.74%	× 2.51%	× 2.06%	× 2.52%	20
= 6.31%		= 8.74%	=10.89%	=12.78%	= 7.86%	= 5.64%	= 7.06%	21
× 1.90		× 1.87	× 1.80	× 1.98	× 1.74	× 1.80	× 1.90	22
=11.99%		=16.34%	=19.60%	=25.31%	=13.68%	=10.16%	=13.41%	23
$ 209,756	19.2%	$ 559,384	$ 460,550	$ 408,438	$ 296,718	$ 218,926	$ 232,392	24
15,567	41.1	87,190	84,204	74,249	25,341	32,070	15,567	25
68,172	13.4	127,603	97,319	94,658	75,388	48,107	68,172	26
125,104	18.0	337,878	276,448	235,966	192,718	137,085	147,740	27
913	49.0	6,713	2,579	3,565	3,271	1,664	913	28
91,399	27.6	308,603	195,237	141,238	121,406	110,673	91,399	29
573	89.9	14,137	7,737	2,100	559	521	573	30
301,728	**22.2**	**882,124**	**663,524**	**551,776**	**418,683**	**330,120**	**324,364**	31
80,781	23.4	263,934	203,405	184,160	147,541	91,939	92,068	32
52,003	26.4	168,068	125,003	110,415	90,580	47,959	52,003	33
(696)	6.6	14,582	14,537	20,404	18,012	14,538	10,592	34
29,474	22.5	81,284	63,865	16,529	38,949	29,442	29,474	35
51,929	28.8	183,909	92,488	51,891	56,233	48,864	51,929	36
132,710	**26.2**	**461,083**	**306,747**	**243,462**	**207,259**	**140,803**	**143,997**	37
$169,018	**18.4%**	**$419,843**	**$355,541**	**$307,041**	**$211,424**	**$189,317**	**$180,367**	38
3.25		2.28	3.84	5.92	3.76	3.87	3.47	39
1.79		2.10	1.87	1.80	1.98	1.74	1.80	40
4,620		6,253	6,372	5,928	5,144	5,415	4,620	41
32,555		37,082	36,248	36,248	33,333	32,555	32,555	42
$ 9.95		$31.13	$29.63	$32.75	$22.35	$11.36	$ 9.95	43
$ 5.35		$20.88	$16.25	$18.45	$ 7.65	$ 6.30	$ 5.35	44
17		20	18	22	29	20	15	45
9		13	10	12	10	11	8	46

20.5-year performance

20.5-year CGR[1]	Fiscal 1985	Fiscal 1980	Fiscal 1975	Fiscal 1970	Base Yr. F 1965
10.7%	282	214	141	64	35
15.2	3,641,762	1,998,239	1,268,124	379,653	199,537
15.0	13,317	5,950	3,600	1,670	762
16.9%	31,477	11,376	6,324	2,729	1,284
	$65.80	$77.67	$61.40	$47.09	$44.44
19.2%	**$2,072,569**	**$ 883,614**	**$ 388,254**	**$ 128,491**	**$ 57,044**
17.6	109,420	42,964	24,483	9,938	3,942
17.5	51,429	20,679	12,057	5,068	1,896
17.7	**57,991**	**22,285**	**12,426**	**4,870**	**2,046**
18.9	82,136	32,605	17,020	6,091	2,351
17.1	13,199	7,813	1,215	844	519
17.9%	$ 44,792	$ 14,472	$ 11,211	$ 4,026	$ 1,527
18.1%	$56.77	$27.14	$11.93	$ 4.07	$ 1.87
16.5	**1.59**	**.68**	**.38**	**.15**	**.07**
17.7	2.25	1.00	.52	.19	.08
15.1	**.36**	**.24**	**.04**	**.03**	**.02**
16.9	1.23	.44	.34	.13	.05
19.3%	$11.50	$ 5.54	$ 2.58	$ .79	$ .31
	$ 3.12	$ 2.80	$ 2.90	$ 3.09	$ 3.20
	× 2.80%	× 2.52%	× 3.20%	× 3.79%	× 3.59%
	= 8.74%	= 7.06%	= 9.28%	=11.72%	=11.49%
	× 1.87	× 1.90	× 1.85	× 1.99	× 2.31
	=16.34%	=13.41%	=17.17%	=23.34%	=26.55%
17.9%	$ 559,384	$ 232,392	$ 117,383	$ 38,878	$ 19,187
16.5	87,190	15,567	1,968	4,658	3,801
15.1	127,603	68,172	35,467	14,887	7,165
19.9	337,878	147,740	79,159	19,040	8,156
25.4	6,713	913	790	293	65
23.9	308,603	91,399	48,006	10,390	3,832
29.0	14,137	573	420	148	77
19.4	**882,124**	**324,364**	**165,809**	**49,416**	**23,096**
16.7	263,934	92,068	49,338	21,212	11,213
16.1	168,068	52,003	30,810	15,178	7,913
11.1	14,582	10,592	3,851	2,833	1,671
21.0	81,284	29,474	14,677	3,201	1,629
23.6	183,909	51,929	32,588	3,315	2,377
18.8	**461,083**	**143,997**	**81,926**	**24,527**	**13,606**
20.3%	**$419,843**	**$180,367**	**$ 83,883**	**$ 24,889**	**$ 9,490**
	2.28	3.47	2.57	7.51	3.99
	2.10	1.80	1.98	1.99	2.43
	6,253	4,620	3,686	2,117	1,871
	37,082	32,555	32,555	31,558	30,458
	$31.13	$ 9.95	$13.75	$ 4.63	$ 1.02
	$20.88	$ 5.35	$ 7.74	$ 2.47	$ .63
	20	15	36	31	15
	13	8	20	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

[1] Compound growth rate is for 20.5 years due to the change of year-end from July 31 to January 31.

[2] Cash flow (funds from operations) is defined as the total of net earnings plus depreciation and deferred income taxes.

[3] Variation in the outstanding shares is the result of a Treasury Stock purchase in 1963, subsequent employee option transactions, and a stock issuance to the Employee Stock Ownership Plan of 778,018 common shares on February 1, 1982 and a public stock issuance of 2.917 million shares on February 8, 1983.

[4] Stock price sources: *Monthly Market Statistics Report*, New York Stock Exchange; prior to 1980, *The Wall Street Journal*

[5] See page 47 for explanation of computational method.

NM = not meaningful

CGR = compound growth rate

Index

Credits

Primary: All Lowe's people
Theme and content: Robert L. Strickland, W. Cliff Oxford
Investor research: Clarissa Story
Design: Henry Church, Freedom CA, Winston-Salem, NC
Photography: Will and Deni McIntyre, McIntyre Photography, Inc., Winston-Salem, NC
Feature writer: Deni McIntyre
Illustrator: Bruce Tucker, Winston-Salem, NC
Printing: Matt Phelan, Perry Communications, Atlanta, GA
Typography: AdType, Inc., r², Winston-Salem, NC
Contributing writers: Greg Bridgeford, Leslie Shell, Tom Smith, Harry Underwood, Karen Worley

LOWE'S

Lowe's Companies, Inc

Company profile

Lowe's Companies, Inc. is a specialty retailer, an upscale discounter, of building materials and related products for the do-it-yourself (DIY) home improvement and home construction markets.

Lowe's presently operates more than 280 retail stores in 21 states located principally in the South Atlantic and South Central regions of the United States.

Each store functions as a "two gun store," catering to our dual customer franchise of retail customers and professional builders/contractors, by combining the merchandise, sales and services of:

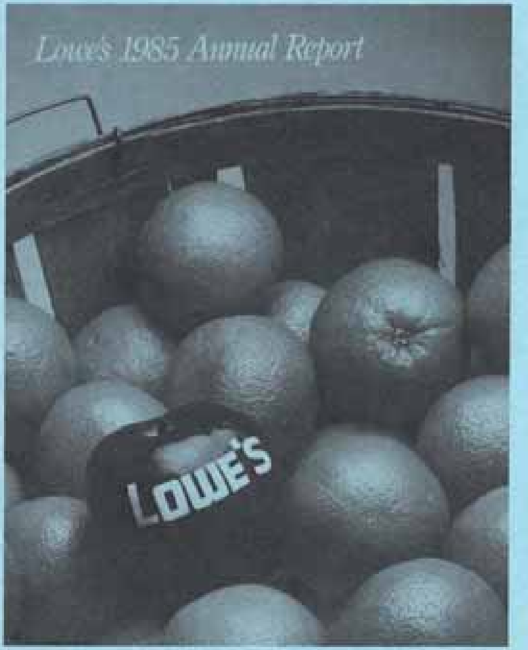
— a building materials supplier
— a hard goods discounter
— a hardware store
— a home fashions and interior design center
— a lumber yard
— an air conditioning, heating, plumbing and electrical supply center
— an appliance and home electronics dealer
— a lawn and garden center.

Our product assortment, which includes many nationally advertised brands, is counted in stockkeeping units which currently number more than 25,000. The typical store stocks approximately 12,000 of these. Our average store in fiscal 1985 did $7.6 million in sales of which 52% was to the retail customers and 48% to professional customers.

Our employees numbered 13,317 or an average of 47 per store at the end of the fiscal year.

Lowe's has been a publicly owned company since October 10, 1961. Our stock has been listed on the New York Stock Exchange since Dec. 19, 1979, on the Pacific Stock Exchange since Jan. 26, 1981, and on The Stock Exchange (London) since Oct. 6, 1981. The shares are traded under the ticker symbol of LOW.

Lowe's general offices are located in the western North Carolina town of North Wilkesboro.



Lowe's 1985 Annual Report Survey

NO POSTAGE NECESSARY IF MAILED IN THE UNITED STATES

BUSINESS REPLY MAIL

FIRST CLASS PERMIT NO. 1 NORTH WILKESBORO, NC

POSTAGE WILL BE PAID BY ADDRESSEE:

Lowe's Companies Inc.
Box 1111
North Wilkesboro, NC 28659-0001

Attention: Corporate Relations Department

Lowe's 20th Annual Shareholder Survey

Dear Investor:

Thanks for reading the Lowe's 1985 Annual Report. Please take a few minutes to tell us what you thought of it by answering the following questions. Your opinions are important to us and they help us improve our ability to serve you.

When you've completed the survey please drop it in the mail, postage is prepaid!

1. When reading annual reports, different people have different informational needs. Please check all the sections of this report you read by placing a mark on the line next to the title of the section.

___ All of the report
___ Letter to shareholders
___ The art and science of retailing
___ Saying sooth about the home center industry
___ Here's looking at us, 1985 in review
___ Here's looking at them, our industry and our competition
___ Financial report
___ Other

2. Next we'd like for you to rate the annual report sections you read. When making your judgements, please consider the overall quality, understandability and readability of the sections you read.

	Low				High
All of the report	1	2	3	4	5
Letter to shareholders	1	2	3	4	5
The art and science of retailing	1	2	3	4	5
Saying sooth about the home center industry	1	2	3	4	5
Here's looking at us, 1985 in review	1	2	3	4	5
Here's looking at them, our industry and our competition	1	2	3	4	5
Financial report	1	2	3	4	5
Other	1	2	3	4	5

Summing it up

3. In general, please rate the overall Lowe's 1985 Annual Report by circling the number below which best describes your overall impression.

	Low				High
Overall, I feel the 1985 annual report is a	1	2	3	4	5

Now we'd like to ask a few questions about you. This information will be invaluable as we begin to analyze your answers to the previous questions.

4. Are you currently a Lowe's shareholder?

___ Yes ___ No

5. As a present or potential shareholder what is or would be your primary reason for holding or buying Lowe's stock?

___ Long term profit on original investment or for capital appreciation
___ Dividend income
___ Both capital appreciation and dividend income
___ Other (please state) ________

6. When you say that you own Lowe's stock does that mean you as an individual or you as the organization with which you are associated? Please check the box below that best describes your ownership interest in Lowe's.

___ I personally own the stock in my own name and have the certificates.
___ I personally own the stock through — and the certificates are in — an employee stock plan.
___ I personally own the stock, however, my broker keeps the certificates.
___ The company I am associated with owns Lowe's stock, and I am the analyst following the company.
___ The company I am associated with owns Lowe's stock, and I am a money manager.

7. Regarding dividends, which of the following do you consider to be most important?

___ Dividend growth on an annual basis
___ Yield on my original investment
___ Dividend never reduced
___ Not interested in dividends

8. How did you *first* become aware of Lowe's? Please answer only one.

___ Through my stockbroker
___ Through a Lowe's employee or store
___ Through a Lowe's shareholder
___ By reading previous annual reports
___ Newspaper or magazine article
___ Investment publication
___ This is my first exposure to Lowe's
___ Other ________

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

___ Security analyst
___ Financial advisor
___ Employee
___ Individual investor
___ Stockbroker
___ Retired or former employee
___ Trade media
___ Investment club
___ Financial media
___ Financial institution
___ Supplier
___ Other ________

10. Are you a male ___ or a female ___

11. In what age group would you be listed?

___ Under 30
___ 30–40
___ 41–50
___ 51–65
___ Over 66

12. Please check the line which most closely describes your present occupation.

___ Executive, administrator, manager
___ Handler, helper, laborer
___ Protective service
___ Precision production
___ Technician or related support
___ Sales occupation
___ Administrative support/clerical
___ Machine operator, assembler or inspector
___ Transportation and material moving occupations
___ Professional specialty/doctor, lawyer, etc.
___ Retired
___ Homemaker

Thanks again for reading the '85 Lowe's Report and especially for answering these questions.

Your name ________

Your address ________

City ________ State ________ Zip ________