UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 28, 2022

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to _________

Commission file number 1-7898

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LOWE'S COMPANIES, INC.

(Exact name of registrant as specified in its charter)

North Carolina	**56-0578072**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 Lowes Blvd., Mooresville, North Carolina	**28117**
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	**(704) 758-1000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)
Common Stock, par value $0.50 per share	**LOW**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

As of July 30, 2021, the last business day of the Company's most recent second quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $134.8 billion based on the closing sale price as reported on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT 3/17/2022
Common Stock, $0.50 par value	661,561,297

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Portions of the Proxy Statement for Lowe's 2022 Annual Meeting of Shareholders	Part III

LOWE'S COMPANIES, INC.
- TABLE OF CONTENTS -

			Page No.
Disclosure Regarding Forward-Looking Statements			ii
PART I			
	Item 1.	Business	1
	Item 1A.	Risk Factors	7
	Item 1B.	Unresolved Staff Comments	15
	Item 2.	Properties	15
	Item 3.	Legal Proceedings	16
	Item 4.	Mine Safety Disclosures	16
		Information About Our Executive Officers	17
PART II			
	Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	18
	Item 6.	Reserved	19
	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
	Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	31
	Item 8.	Financial Statements and Supplementary Data	33
	Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	68
	Item 9A.	Controls and Procedures	68
	Item 9B.	Other Information	68
	Item 9C.	Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	68
PART III			
	Item 10.	Directors, Executive Officers and Corporate Governance	69
	Item 11.	Executive Compensation	69
	Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	69
	Item 13.	Certain Relationships and Related Transactions, and Director Independence	69
	Item 14.	Principal Accountant Fees and Services	69
PART IV			

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements including words such as “believe”, “expect”, “anticipate”, “plan”, “desire”, “project”, “estimate”, “intend”, “will”, “should”, “could”, “would”, “may”, “strategy”, “potential”, “opportunity”, “outlook”, “scenario”, “guidance” and similar expressions are forward-looking statements. Forward-looking statements involve, among other things, expectations, projections, and assumptions about future financial and operating results, objectives, business outlook, priorities, sales growth, shareholder value, capital expenditures, cash flows, the housing market, the home improvement industry, demand for products and services, share repurchases, Lowe’s strategic initiatives, including those relating to acquisitions and dispositions and the impact of such transactions on our strategic and operational plans and financial results. Such statements involve risks and uncertainties, and we can give no assurance that they will prove to be correct. Actual results may differ materially from those expressed or implied in such statements.

For a detailed description of the risks and uncertainties that we are exposed to, you should read Item 1A, “Risk Factors” included elsewhere in this Annual Report. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update these statements other than as required by law.

Part I

Item 1 - Business

General Information

Lowe's Companies, Inc. and subsidiaries (the Company or Lowe's) is a Fortune® 50 company and the world's second largest home improvement retailer. As of January 28, 2022, Lowe's operated 1,971 home improvement and hardware stores, representing approximately 208 million square feet of retail selling space. These operations included 1,737 stores located across 50 U.S. states, as well as 234 stores in Canada.

The Canadian stores include RONA inc. (RONA), which was acquired by Lowe's in 2016. RONA operates 173 stores in Canada as of January 28, 2022, as well as services 226 dealer-owned stores. The RONA stores represent complementary store formats operating under various banners.

Lowe's was founded in 1921 with the opening of its first hardware store in North Wilkesboro, North Carolina. The Company was incorporated in North Carolina in 1952 and has been publicly held since 1961. The Company's common stock is listed on the New York Stock Exchange - ticker symbol "LOW".

For additional information about the Company's performance and financial condition, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this Annual Report.

Customers, Market and Competition

Our Customers

We serve homeowners, renters, and professional customers (Pro customers). Individual homeowners and renters complete a wide array of projects and vary along the spectrum of do-it-yourself (DIY) and do-it-for-me (DIFM). The Pro customer consists of two broad categories: construction trades and maintenance, repair and operations.

Our Market

The U.S. market remains our predominant market, accounting for approximately 94% of consolidated sales for the fiscal year ended January 28, 2022. The market in which we operate includes home-related sales through a variety of types of businesses. This includes home centers, paint stores, hardware stores, lumber yards and garden centers, mass retailers, home goods specialty stores, and online retailers, as well as wholesalers that provide home-related products and services to homeowners, renters, businesses, and the government.

There are many variables that affect consumer demand for the home improvement products and services Lowe's offers. Key indicators we monitor include real disposable personal income, employment, home prices, housing turnover, and consumer mobility. We also monitor demographic and societal trends that shape home improvement industry growth.

Our Competition

The home improvement industry includes a broad competitive landscape that continues to evolve. Lowe's competes with national and international home improvement warehouse chains and lumber yards in most of the markets we serve. We also compete with traditional hardware, plumbing, electrical, home supply retailers, and maintenance and repair organizations. In addition, we compete with general merchandise retailers, warehouse clubs, online retailers, other specialty retailers, providers of equipment and tool rental, as well as service providers that install home improvement products. Location of stores, product assortment, product pricing and customer service continue to be key competitive factors in our industry, while the evolution of technology and customer expectations also underscores the importance of omnichannel capabilities as a competitive factor. To ensure ongoing competitiveness, Lowe's focuses on delivering the right home improvement products, with the best service and value, across every channel and community we serve. See further discussion of competition in Item 1A, "Risk Factors", of this Annual Report.

Products and Services

Our products and services provide the retail and Pro customer a one-stop shop for a full complement of merchandise and services to complete home improvement, repair, maintenance, or construction projects, enabling a Total Home solution for every need in the home.

Our Products

Product Selection
To meet customers' varying needs, we offer a complete line of products for construction, maintenance, repair, remodeling, and decorating. We offer home improvement products in the following categories: Appliances, Seasonal & Outdoor Living, Lawn & Garden, Lumber, Kitchens & Bath, Tools, Paint, Millwork, Hardware, Flooring, Rough Plumbing, Building Materials, Décor, Lighting, and Electrical. A typical Lowe's-branded home improvement store stocks approximately 40,000 items, with over two million additional items available through our online selling channels. See Note 17 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data", of this Annual Report for historical revenues by product category for each of the last three fiscal years.

We are committed to offering a wide selection of national brand-name merchandise complemented by our selection of private brands. In addition, we are dedicated to ensuring the products we sell are sourced in a socially responsible, efficient, and cost-effective manner.

National Brand-Name Merchandise
In many product categories, customers look for a familiar and trusted national brand to instill confidence in their purchase. Lowe's home improvement stores carry a wide selection of national brand-name merchandise such as GE®, LG®, Samsung®, and Whirlpool® appliances; Sherwin-Williams® and Valspar® paints and stains; LARSON® windows and doors; Pergo® and SMARTCORE® flooring; CRAFTSMAN® and DeWalt® power tools; Metabo® pneumatic tools; Weber® and Char-Broil® grills; Owens Corning® insulation and roofing; GAF® roofing; Marshalltown® masonry and concrete tools; Husqvarna® and EGO® outdoor power equipment; John Deere® riding lawn mowers; Scotts® lawn care products, SharkBite® plumbing products; A. O. Smith® water heaters; Norton® abrasives; Eaton® and Southwire® electrical products and wire; and many more.

Private Brands
Private brands are an important element of our overall portfolio, helping to increase customer loyalty, drive sales, create differentiation, and improve margin. We have a strong private brand presence across core categories, including some of our most valuable brands such as: Kobalt® tools; STAINMASTER® carpets; allen+roth®, ORIGIN 21™, and Style Selections® home décor products; Severe Weather® pressure treated lumber; Project Source® high-value project completers; Holiday Living® seasonal products; Harbor Breeze® ceiling fans; Sta-Green® lawn and garden products; Moxie® cleaning products; Reliabilt® doors, windows, and hardware; and Utilitech® lighting and electrical products.

Supply Chain
We source our products from vendors worldwide and believe that alternative and competitive suppliers are available for virtually all of our products. Whenever possible, we purchase directly from manufacturers to provide savings for customers and improve our gross margin.

To efficiently move products from our vendors to our stores and maintain in-stock levels, we own and operate distribution facilities that enable products to be received from vendors, stored and picked, or cross-docked, and then shipped to our retail locations or directly to customers. These facilities include 15 regional distribution centers (RDC) and 15 flatbed distribution centers (FDC) in the United States. The FDCs distribute merchandise that requires special handling due to size or type of packaging such as lumber, boards, panel products, pipe, siding, ladders, and building materials. On average, each RDC and FDC serves approximately 115 stores. We also own and operate seven distribution centers, including four lumber yards, to serve our Canadian market.

In addition to the RDCs and FDCs, we also operate coastal holding and transload facilities (CHF) to handle import product, bulk distribution centers (BDC) to handle appliances and other big and bulky product, cross-dock delivery terminals (XDT) to fulfill final mile box truck deliveries, and fulfillment centers (FC) focused on parcel post eligible products. As part of our market-based delivery model, we added three XDT ecosystems (consisting of six new XDTs) in fiscal 2021. We also enhanced our distribution network by opening four BDCs, three FCs, and two CHFs.

Collectively, our facilities enable our import and e-commerce products to get to their destination as efficiently as possible. Most parcel-eligible items can be ordered by a customer and delivered within two business days at standard shipping rates.

In fiscal 2021, approximately 65% of the total dollar amount of merchandise we purchased flowed through our distribution network, while the remaining portion was shipped directly to our stores or customers directly from our vendors.

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Our Services

Installed Sales
We offer installation services through independent contractors in many of our product categories, with Flooring, Kitchens & Bath, Millwork, Appliances, and Lumber accounting for the majority of installed sales. Our Installed Sales model, which separates selling and project administration tasks, allows our sales associates to focus on project selling, while project managers ensure that the details related to installing the products are efficiently executed. Installed Sales, which includes both product and labor, accounted for approximately 5% of total sales in fiscal 2021.

Lowe's Protection Plans and Repair Services
We offer extended protection plans for various products within the Appliances, Kitchens & Bath, Décor, Millwork, Rough Plumbing, Electrical, Seasonal & Outdoor Living, Tools, and Hardware categories. These protection plans provide customers with product protection that enhances or extends coverage offered by the manufacturer's warranty and provides additional customer-friendly benefits that go beyond the scope of a manufacturer's warranty. The protection plans provide in-warranty benefits and out-of-warranty repair services for major appliances, outdoor power equipment, tools, grills, fireplaces, air conditioners, water heaters, and other eligible products through our stores or in the home through the Lowe's Authorized Service Repair Network. Our contact centers take customers' calls, assesses the problems, and facilitates resolutions, making after-sales service easier for our customers by managing the entire process.

Selling Channels

We are continuing to enhance our omnichannel capabilities, which allows our customers to move from channel to channel with simple and seamless transitions even within the same transaction. For example, for many projects, more than half of our customers conduct research online before making an in-store purchase. For purchases made on Lowes.com, customers may pick up their purchase in-store at the customer service desk, curbside pick-up, or touchless lockers, or have their purchase delivered to their home or business. In addition, flexible fulfillment options are available for in-store purchases and those made through the contact center. Regardless of the channels through which customers choose to engage with us, we strive to provide them with a seamless experience across channels and an endless aisle of products, enabled by our flexible fulfillment capabilities. Our ability to sell products in-store, online, on-site, or through our contact centers speaks to our leverage of our existing infrastructure with the omnichannel capabilities we continue to introduce.

In-Store
Our 1,798 Lowe's-branded home improvement stores, inclusive of 1,737 in the U.S. and 61 in Canada, are generally open seven days per week and average approximately 112,000 square feet of retail selling space, plus approximately 32,000 square feet of outdoor garden center selling space. The 173 RONA stores operate under various complementary store formats that address target customers and occasions. Our home improvement stores in the U.S. and Canada offer similar products and services, with certain variations based on localization. We continue to develop and implement tools to make our sales associates more efficient and to integrate our order management and fulfillment processes. Our home improvement stores have Wi-Fi capabilities that provide customers with Internet access, making information available quickly to further simplify the shopping experience.

Online
Through our websites and mobile applications, we seek to empower consumers by providing a 24/7 shopping experience, product information, customer ratings and reviews, buying guides, how-to videos and other information. These tools help consumers make more informed purchasing decisions and give them increased confidence to undertake home improvement projects. We enable customers to choose from a variety of fulfillment options, including buying online and picking up in-store, curbside pick-up, truck delivery and parcel shipment to their homes or businesses. We also offer a new virtual kitchen design service and virtual sales support for sheds, fencing, generators, and other project-related categories to allow our customers to shop how, when, and where they want for services projects.

On-Site
We have on-site specialists available for retail and Pro customers to assist them in selecting products and services for their projects. Our Pro sales managers meet with Pro customers at their place of business or on a job site and leverage nearby stores and our distribution network to ensure we meet customer needs for products and resources. In

addition, our In-Home Sales program is available in a majority of U.S. Lowe’s home improvement stores to discuss varying exterior projects such as windows/doors, roofing, siding, and deck projects, whose characteristics lend themselves to an in-home consultative sales approach.

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Contact Centers
Lowe’s operates three contact centers which are located in Wilkesboro, North Carolina; Albuquerque, New Mexico; and Indianapolis, Indiana. These contact centers help Lowe’s enable an omnichannel customer experience by providing the ability to tender sales, coordinate deliveries, manage after-sale installations, facilitate repair services for Appliances and Outdoor Power Equipment, and answer general customer questions via phone, mail, e-mail, live chat, and social media.

Human Capital

When it comes to attracting and retaining top talent, Lowe’s strives to be an employer of choice. We are committed to creating valuable career opportunities for our associates, supporting them and the communities where they live, and cultivating a culture that invites and encourages diverse opinions and ideas. We enable associates to build meaningful careers that unlock their potential in an inclusive workplace as we work together to deliver the right home improvement products to our customers, with the best service and value, across every channel and community we serve.

As a testament to our commitments, in 2021 we received more than 15 notable employer of choice awards including being named: a Disability:IN National Best Place to Work for Disability Inclusion, a Forbes America’s Best Large Employers, a Best of the Best 2021 Top Employer by Black EOE Journal, HISPANIC Network Magazine, and Professional Woman’s Magazine, and a Best Corporation for Veteran’s Business Enterprises of the Year.

Our People
As of January 28, 2022, Lowe’s employed approximately 200,000 full-time associates and 140,000 part-time associates, primarily in the United States, India, and Canada. During the spring season, we temporarily expand our workforce by hiring associates in part-time, seasonal, and full-time positions to meet the elevated levels of demand.

Certain employees in Canada are subject to collective bargaining agreements. No other employees are subject to collective bargaining agreements. Management considers its relations with employees to be good.

Diversity and Inclusion
We believe that, by building diverse and inclusive teams, we drive better ideas, positive business results, and improve service through a deeper connection with our customers. We continue to execute on our multi-year program to integrate diversity and inclusion initiatives into our corporate strategy across three areas: talent, culture, and business. In our efforts to foster an inclusive culture, we launched a new multigenerational business resource group (BRG) in 2021, building upon the seven existing associate-led BRGs that are sponsored by our executive leadership team. We have also introduced badges for our store uniforms that identify the store associates who speak Spanish or American Sign Language. In 2021, we held our ninth annual Women’s Leadership Summit, focused on developing women leaders across our corporate and field locations. Also, in 2020, Lowe’s joined the OneTen coalition, which as a whole, the coalition has committed to hiring one million Black Americans in the next ten years.

Talent Development
We are committed to securing top talent and providing ongoing training and other developmental opportunities to facilitate meaningful careers at Lowe’s. We enhanced our onboarding process so that new hires can quickly learn the skills needed for their position. We offer a variety of leadership and development programs that develop skills and capabilities from product knowledge in our stores to advanced leadership principles for our leaders.

This year we expanded Lowe's University Academies offerings and included certification programs for store and technology associates that further develop their skills and knowledge base.

Additionally, through Lowe’s Track to the Trades program, we provide tuition reimbursement to our associates, encouraging them to complete apprentice certifications in carpentry, plumbing, electrical, heat, air ventilation and cooling (HVAC), or appliance repair.

Total Rewards and Wellness
In the spirit of building the best team and providing them with the best care, we are proud of the financial and well-being benefits we offer to our associates. We have a strong track record of investing in our workforce by offering locally competitive salaries and wages. We offer a wide variety of health, welfare, and financial benefits to our full-time and part-time associates, including health care and insurance benefits, retirement plans, an employee stock purchase plan, paid time off, leave programs and tuition assistance, among many others.

In response to the evolving coronavirus (COVID-19) pandemic, we continued to evolve our benefits and wellness programs to increase access to care. We waived co-payments on pharmacy home deliveries, covered 100% of COVID-19 testing and vaccines, continued to operate our onsite clinics in a virtual care model, and launched a new virtual behavioral health app. In partnership with CVS retail pharmacy and Premise onsite clinics, we launched a vaccine program, providing onsite access to

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sites across the country. In 2021, we continued to offer emergency paid leave for associates who are suffering from COVID-19.

Store and Workplace Safety
Our associates and customers drive our success. Providing them a safe environment for both working and shopping is essential. We strive to maintain a culture of safety, which begins with our leaders modeling the behaviors we want our associates to adopt. We embed safety into associate onboarding, developmental e-learning and on-the-job training. In response to the COVID-19 pandemic, we instituted rigorous safety standards in support of social distancing and enhanced sanitizing and cleaning.

Corporate Responsibility Report
Additional information regarding our activities related to our people and human capital strategy, as well as our workforce diversity data, can be found in our Corporate Responsibility Report and Culture, Diversity & Inclusion Report, which are published annually. The contents of these reports are not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC.

Seasonality and Working Capital

The retail business in general is subject to seasonal influences, and our business is, to some extent, seasonal. Historically, we have realized the highest volume of sales during our second fiscal quarter (May, June, and July) and the lowest volume of sales during our fourth fiscal quarter (November, December, and January). Accordingly, our working capital requirements have historically been greater during our fourth fiscal quarter as we build inventory in anticipation of the spring selling season and as we experience lower fourth fiscal quarter sales volumes. We fund our working capital requirements primarily through cash flows generated from operations, but also with short-term borrowings, as needed. For more detailed information, see the Financial Condition, Liquidity and Capital Resources section in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, of this Annual Report.

Intellectual Property

The name “Lowe’s” is a registered service mark of one of our wholly-owned subsidiaries. We consider this mark and logo and the accompanying name recognition to be valuable to our business. This subsidiary and other wholly-owned subsidiaries own and maintain various additional registered and unregistered trademarks, service marks and trade names, including retail names “RONA” and “Reno Depot”, and private brand product names “Kobalt”, “STAINMASTER” and “allen+roth”. These subsidiaries also maintain various Internet domain names that are important to our business, and we also own registered and unregistered copyrights. In addition, we maintain patent portfolios related to some of our products and services and seek to patent or otherwise protect certain innovations that we incorporate into our products, services, or business operations.

Government Regulation

We are subject to a wide array of federal, state, and local laws and regulations. We do not currently expect compliance with these laws and regulations to have a material effect on our capital expenditures, results of operations, and competitive position as compared to prior periods.

Sustainability

We have a proud history of managing our business responsibly and serving our associates and communities. We continue to integrate sustainability topics and issues into our business, including focusing on product sustainability, our associates and communities, and reducing the environmental footprint of our operations, which we believe will help drive long-term shareholder value. In addition to oversight by the full Board of Directors, the Board has also delegated primary responsibility for more frequent and in-depth oversight of the Company’s sustainability strategies and initiatives and reviewing the Company’s position on significant environmental and social issues to the sustainability committee of the Board of Directors. In fiscal 2021, for the third consecutive year, Lowe’s was included in the Dow Jones Sustainability North America Index based on our environmental, social, and governance practices.

Reducing our Environmental Footprint

We are committed to mitigating climate change by reducing the environmental impact of our operations and supply chain through reducing carbon emissions with investments in energy efficiency, use of renewable energy, environmentally friendly transportation practices, and innovative water and waste management systems.

Greenhouse Gas Emissions

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By the end of 2022, we plan to announce a science based net-zero target. The new target will include near and long-term greenhouse gas (GHG) emissions reduction goals for our full value chain. In addition to reducing GHG emissions from our operations, the new target will also include reduction efforts for our supply chain and the products we sell. We are committed to reducing our operational environmental footprint and have made significant investments in our facilities. Over the past three years, we have spent more than $550 million across multiple projects including indoor LED upgrades, replacing stores' aging HVAC units with high efficiency models, installing and updating building management systems, and installing pallet grinders.

We are a member of the Renewable Energy Buyers Alliance to evaluate and explore new opportunities and technologies across renewable energy markets. Our renewable energy generation expanded in 2020 when 100 megawatts of wind energy became operational in central Texas through a power purchase agreement, and we have established a pipeline of other offsite renewable projects becoming operational over several years. In addition, we are in the process of evaluating on-site solar generation and battery storage options in multiple states.

We are dedicated to promoting sustainable practices in the transportation industry, and we collaborate with the Environmental Protection Agency's (EPA) SmartWay program to reduce transportation emissions by managing and reducing fuel usage by creating incentives for freight contractors to improve efficiency. We are an EPA SmartWay program partner and aim for 100% SmartWay certification for our transportation providers; in the future this will be a program requirement for all transportation providers along with annual recertification. This program provides access to comprehensive data and oversight of Scope 3 emissions associated with our U.S. transportation footprint.

Waste
We partner with suppliers to improve recycling and waste diversion, develop regional management processes, measure waste streams and conduct waste audits. At a local level, store waste, including cardboard, broken appliances, wood pallets, and more, are recycled through national and regional partners, and we provide in-store recycling and reuse centers for our customers to bring in plastic planter pots, compact fluorescent lamp bulbs, plastic bags, and rechargeable batteries. In fiscal 2021, we joined the How2Recycle partnership in an effort to educate customers and increase the likelihood of proper recycling of our product packaging. As technology and innovative practices improve, we will continue to explore opportunities to participate in the circular economy.

Water
While our water consumption is modest compared with other industries, we continue to focus on reducing water consumption within our operations. We use smart irrigation controllers for efficient watering at the majority of stores in the United States and have been exploring other water-efficient technologies to increase water savings in our stores and garden centers. Additionally, we utilize leak detection technology to catch leaks as they occur to prevent unnecessary water use. We also have protocols in place to manage the disposal of chemicals to prevent release into waterways of the communities we serve.

Product Sustainability

We are committed to promoting sustainable practices throughout our supply chain and providing customers with high quality and safe products. Our products undergo a thorough selection process, beginning with our sourcing decisions. Through collaboration and established management systems, we monitor our suppliers' practices to secure high-quality products from suppliers who support worker rights and protect the environment. Lowe's human rights policy, updated in fiscal 2021 to reflect our stance on modern slavery, supports the fundamental principles of Human Rights, as defined by the "Universal Declaration of Human Rights." We continue to hold all suppliers to our rigorous standards through our human rights policy, our conflict minerals policy, and our Vendor Code of Conduct which includes enhanced environmental standards for all suppliers. In addition, we have a wood sourcing policy that specifies that all wood products sold in our stores originate from well-managed, non-endangered forests.

As part of our commitment to reducing the environmental impact of our products, we continue to increase our offering of independently certified products that have validated environmental claims, reduce the usage of natural resources, and save customers energy and water consumption. We continue to work with local and regional utilities to offer customers assorted rebates for a variety of environmentally efficient products including ENERGY STAR® and WaterSense®.

Sustainability Reporting

Lowe's participates in the CDP's climate, forestry, and water security questionnaires to benchmark and quantify our environmental practices, to provide transparency on our progress, and assist in the reduction of our contributions to climate change. In fiscal 2021, Lowe's externally verified its Scope 1 and Scope 2 GHG emissions and water usage data to increase confidence in our reporting. Additionally, we continued to align our sustainability reporting with the Sustainable Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), and the UN Sustainable Development Goals (SDGs). Lowe's published its first Task Force on Climate-related Financial Disclosures (TCFD) report in fiscal 2021 to assess our climate-related risks and opportunities and better understand the potential impacts on our value chain.

For more information about Lowe's sustainability efforts, please visit responsibility.lowes.com.

Investing in Our Communities

We understand the important role Lowe's plays in providing products, services, and support to communities in need. As part of our goal to invest $350 million by 2025 in local communities, in 2021 we provided more than $100 million to these efforts, reinforcing our commitment to safe, affordable housing, investing in skilled trades education, and focusing on our unwavering support of rebuilding communities in the wake of natural disasters.

Lowe's celebrated its centennial in 2021 by giving back through a new initiative, 100 Hometowns. We launched the nationwide program to complete 100 impact projects to help communities rebuild from natural disasters, repair critical housing, restore community centers, revive green spaces, and more. In total, more than 1.3 million people benefited from 100 Hometowns.

During the year, Lowe's led or partnered on initiatives to build, repair, modify, and renovate individual homes and housing facilities that benefit families, front-line workers, veterans, seniors and communities in need. As an NFL partner, we worked with leading national nonprofit organization Rebuilding Together in thirteen NFL team markets to fund and complete critical housing repairs for single-family homes owned by front-line workers impacted by COVID-19. In support of the military and veterans community, we partnered with Building Homes for Heroes to fund and help complete the construction or modification of eleven mortgage-free homes for U.S. veterans who were injured while serving in the military.

As areas of the U.S. recovered from various natural disasters throughout the year, Lowe's helped meet essential needs in impacted communities and supported relief efforts with the American Red Cross and Good360, a nonprofit leader in product philanthropy. Store associates supported customers by handing out free, critically-needed supplies, providing mobile laundry and shower trailers, volunteering to work at stores most impacted by the storms, and deploying the new Lowe's Tool Rental Disaster Response Trailer to help people get safely back into their homes and get their local businesses up and running.

Lowe's also continued efforts to help close the skilled trades gap in the U.S. with Generation T, a digital-first movement aimed at changing the way people see, learn and feel about the skilled trades. Through various partnerships, we offered educational workshops, immersive experiences, and networking opportunities to students, transitioning military service members and their spouses.

In 2021, our associates across the U.S. and Canada contributed nearly 196,000 volunteer hours in the communities where they live and work. A major contributor to this goal is the work done through Lowe's Heroes, a company-wide effort where we provide funding for each U.S. and Canadian store to identify a project in their hometown that associates can support through volunteering. The Lowe's Employee Relief Fund, made possible through associate donations and company matching, supports associates in times of significant, unforeseen financial hardship. In 2021, Lowe's Employee Relief Fund distributed more than $4 million, helping 3,130 associates in need.

For more information on Lowe's partnerships and latest community improvement projects, visit responsibility.lowes.com.

Available Information

Our Annual Report, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge through our Internet website at ir.lowes.com, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The SEC maintains an Internet site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A - Risk Factors

We describe below certain risks that could adversely affect our results of operations, financial condition, business reputation or business prospects. These risk factors may change from time to time and may be amended, supplemented or superseded by updates to the risk factors contained in our future periodic reports on Form 10-K, Form 10-Q and reports on other forms we file with the SEC. All forward-looking statements about our future results of operations or other matters made by us in this Annual Report, in our Annual Report to Lowe's Shareholders and in our subsequently filed reports to the SEC, as well as in our press releases and other public communications, are qualified by the risks described below.

You should read these risk factors in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 and our consolidated financial statements and related notes in Item 8. There also may be other factors that we cannot anticipate or that are not described in this Annual Report generally because we do not currently perceive them to be material. Those factors could cause results to differ materially from our expectations. In connection with any investment decision with respect to our securities, you should carefully consider the following risk factors, as well as the other information contained in this report and our other filings with the SEC.

Strategic, Competitive, Operational, and Reputational Risks

We may be unable to adapt our business concept in a rapidly evolving retail environment to address the changing shopping habits, demands, and demographics of our customers, or realize the intended benefits of strategic initiatives.
The home improvement retail environment, like the retail environment generally, is rapidly evolving, and adapting our business concept to respond to our customers' changing shopping habits and demands and their changing demographics is critical to our future success. Our success is dependent on our ability to identify and respond to the economic, social, style, and other trends that affect demographic and consumer preferences in a variety of our merchandise categories and service offerings. Customers' expectations about how they wish to research, purchase, and receive products and services have also evolved. It is difficult to predict the mix of products and services that our customers will demand. As customers begin to expect a more personalized experience, our ability to offer more localized assortments of our merchandise to appeal to local cultural and demographic tastes within each customer group is important to our ability to effectively meet customer expectations. If we do not successfully differentiate the shopping experience to meet the individual needs and expectations of or within a customer group, we may lose market share with respect to those customers.

Further, we have a store base that requires maintenance, investment, and space reallocation initiatives to deliver the shopping experience that our customers desire. Our capital investments in our stores may not deliver the relevant shopping experience our customers expect. We must also maintain a safe store environment for our customers and associates, as well as to protect against loss or theft of our inventory (known as "shrink"). Higher rates of shrink, which we have experienced from time to time, can require operational changes that may increase costs.

Failure to identify such trends, adapt our business concept, implement an increasingly localized merchandising assortment, improve and maintain safe stores, and implement change, growth, productivity and other strategic initiatives successfully could negatively affect our relationship with our customers, the demand for the home improvement products and services we sell, the rate of growth of our business, our market share, and results of operations.

We may not be able to realize the benefits of our strategic initiatives focused on omnichannel sales and marketing presence if we fail to deliver the capabilities required to execute on them.
Our interactions with customers have evolved into an omnichannel experience as they increasingly are using computers, tablets, mobile phones, and other electronic devices to shop in our stores and online and provide feedback and public commentary about all aspects of our business. Omnichannel retail is quickly evolving, and we must anticipate and meet our customers' expectations and counteract new developments and technology investments by our competitors. Our customer-facing technology systems must appeal to our customers, function as designed and provide a consistent customer experience. We also need to collect, use and share relevant customer data to effectively meet customer expectations of a more personalized experience. Our ability to collect, use, and share such data is subject to a number of external factors, including the impact of legislation or regulations governing data privacy and security, as well as the change of third party policies restricting data collection, use, and sharing.

The success of our strategic initiatives to adapt our business concept to our customers' changing shopping habits and demands and changing demographics have required us to and will continue to require us to deliver large, complex programs requiring integrated planning, initiative prioritization, and program sequencing. These initiatives have required and will continue to require new competencies in many positions, and our management, employees and contractors have had to and will need to continue to adapt and learn new skills and capabilities. To the extent they are unable or unwilling to make these transformational changes, we may be unable to realize the full benefits of our strategic initiatives and expand our relevant market access. Failure to realize the benefits of amounts we invest in new technologies, products, or services could result in the value of those investments being written down or written off. In addition, to support our strategic initiatives and the related technology investments needed to implement our strategic investments, we must attract and retain a large number of skilled professionals, including technology professionals. The market for these professionals is increasingly competitive. Our results of operations, financial condition, or business prospects could also be adversely affected if we fail to provide a consistent experience for our customers, regardless of sales channel, if our technology systems do not meet our customers’ expectations, if we are unable to counteract new developments and innovations implemented by our competitors or if we are unable to attract, retain and manage the talent succession of additional personnel at various levels of the Company who have the skills and capabilities we need to implement our strategic initiatives and drive the changes that are essential to successfully adapting our business concept in the rapidly changing retail environment.

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We have many competitors who could take sales and market share from us if we fail to execute our merchandising, marketing and distribution strategies effectively, or if they develop a substantially more effective or lower cost means of meeting customer needs, resulting in a negative impact on our business and results of operations.
We operate in a highly competitive market for home improvement products and services and have numerous large and small, direct and indirect competitors. The principal competitive factors in our industry include convenience, customer service and experience, quality and price of merchandise and services, in-stock levels, and merchandise assortment and presentation. We face growing competition from online and omnichannel retailers who have a similar product or service offering. Customers are increasingly able to quickly comparison shop and determine real-time product availability and price using digital tools. Further, online and omnichannel retailers continue to focus on delivery services, as customers are increasingly seeking faster, guaranteed delivery times, including same-day and next-day fulfillment, low-price or free shipping, and convenient pick-up options, including curbside pick-up, in-store pick-up, and buy online pick-up in-store (BOPIS) lockers, and we must make investments to keep up with our customers' evolving shopping preferences. Our ability to be competitive on delivery times, delivery costs, and delivery options depends on many factors, including successful implementation and the continued maintenance of our initiatives related to supply chain transformation, including our market-based delivery model. Our failure to respond effectively to competitive pressures and changes in the markets for home improvement products and services could affect our financial performance. Moreover, changes in the promotional pricing and other practices of our competitors, including the effects of competitor liquidation activities, may impact our results.

If we fail to hire, train, manage, and retain qualified associates with expanded skill sets or corporate support staff with the capabilities of delivering on strategic objectives, we could lose sales to our competitors, and our labor costs, resulting from operations or the execution of corporate strategies, could be negatively affected.
Our customers, whether they are homeowners, renters or commercial businesses, expect our associates to be well trained and knowledgeable about the products we sell and the home improvement services we provide. We compete with other retailers for many of our associates, and we are experiencing an unusually competitive labor market. Wages are increasing across the United States, and competitors are offering higher compensation than before, due to labor market conditions. Many associates are in entry-level or part-time roles with historically high turnover rates, which has led to increased training and retention costs, particularly in a competitive labor market. Increasingly, our sales associates must have expanded skill sets, including, in some instances, the ability to do in-home or telephone sales. We need to attract and retain a diverse workforce that can deliver relevant, culturally competent and differentiated experiences for a wide variety of culturally diverse customers. Additionally, in order to deliver on the omnichannel expectations of our customers, we rely on the specialized training and capabilities of corporate support staff, which are broadly sought after by our competitors. Further, our ability to successfully execute organizational changes, including management transitions within the Company's senior leadership are critical to our business success. If we are unable to hire, train, manage, and retain qualified associates and specialists, the quality of service we provide to our customers may decrease and our results of operations could be negatively affected.

Furthermore, our ability to meet our labor needs, particularly in a competitive labor market, while controlling our costs is subject to a variety of external factors, including prevailing wage rates, the availability of and competition for talent, health care and other benefit costs, our brand image and reputation, changing demographics and the adoption of new or revised legislation or regulations governing immigration, employment, labor relations, minimum wage, and health care benefits. Periodically, we are subject to labor organizing efforts, and if we become subject to collective bargaining agreements in the future, it could affect how we operate our business and adversely affect our labor costs. In addition to our United States and Canada operations, we have support offices in India and China, and any extended disruption of our operations in our different locations, whether due to labor difficulties or otherwise, could adversely affect our business and results of operations.

Positively and effectively managing our public image and reputation is critical to our business success, and, if our public image and reputation are damaged, it could negatively impact our relationships with our customers, vendors, and associates and, consequently, our business and results of operations.
Our public image and reputation are critical to ensuring that our customers shop at Lowe's, our vendors want to do business with Lowe's, and our associates want to work for Lowe's. We must continue to manage, preserve and grow Lowe's public image and reputation. Lowe's actual or perceived position or lack of position on social, environmental, political, public policy, or other sensitive issues, and any perceived lack of transparency about those matters, could harm our reputation. In addition, failure to meet our stated environmental and social goals, and consumer and investor concerns about our environmental and social practices are potential sources of reputational risk. In addition, vendors and others with whom we do business may affect our reputation. Any negative incident can erode trust and

confidence quickly, and adverse publicity about us could damage our reputation and brand image, undermine our customers' confidence, reduce demand for our products and services, affect our relationships with current and future vendors, impact our results of operations, affect our ability to recruit, retain, and engage our associates, and attract regulatory scrutiny. The significant expansion in the use of social media over recent years has compounded the potential scope of the negative publicity that could be generated by such negative incidents.

Additionally, our proprietary rights in our trademarks, trade names, service marks, domain names, copyrights, patents, trade secrets, and other intellectual property rights are valuable assets of our business. We may not be able to prevent or even discover every instance of unauthorized third party uses of our intellectual property or dilution of our brand names, such as when a third party uses trademarks that are identical or similar to our own. If we are unable to successfully protect our intellectual property rights, our business could be adversely affected.

Failure to achieve and maintain a high level of product and service quality could damage our image with customers, expose us to litigation and negatively impact our sales, profitability, cash flows, and financial condition.
Product and service quality issues could result in a negative impact on customer confidence in Lowe's and our brand image. If our product and service offerings do not meet applicable safety standards or our customers' expectations regarding safety or quality, we could experience lost sales and increased costs and be exposed to legal, financial and reputational risks. Actual, potential or perceived product safety concerns could expose us to litigation, as well as government enforcement action, and result in costly product recalls and other liabilities. As a result, Lowe's reputation as a retailer of high-quality products and services, including both national and Lowe's private brands, could suffer and impact customer loyalty. Additionally, we and our customers have expectations on responsible sourcing. Under our Vendor Code of Conduct, our vendors are required to meet our expectations across multiple areas of compliance, including health and safety, environmental standards, compensation, hours of work, and prohibitions on child and forced labor. If we need to seek alternative sources of supply from vendors with whom we have less familiarity, the risk of our standards not being met may increase.

Supply Chain and Third-Party Risks

Disruptions in our international supply chain and our fulfillment network for our products due to factors, including the COVID-19 pandemic, trade policy changes, and additional tariffs, have and continue to affect our results of operations.
Circumstances surrounding and related to the COVID-19 pandemic have created unprecedented impacts on the global supply chain. We source, stock and sell products from domestic and international vendors, and their ability to reliably and efficiently fulfill our orders is critical to our business success. Impacts related to the COVID-19 pandemic are placing strains on the domestic and international supply chain that have negatively affected the flow and availability of our products. This can and has resulted in higher out-of-stock inventory positions due to difficulties in timely obtaining products from the manufacturers and suppliers of our products. In addition, the costs of transportation of those products to our distribution centers and stores have increased while availability of transportation has decreased, which could negatively affect our business and financial results. Even if we are able to find alternate sources for such products, they may cost more, which could adversely impact our profitability and financial condition.

We source a large number of our products from foreign manufacturers, with China being the dominant import source. Tax and trade policies, tariffs, and other regulations affecting trade between the U.S. and other countries, especially China, enacted in recent years increased the cost of our merchandise sourced from outside of the U.S., which represents a large percentage of our overall merchandise. It remains unclear how tax or trade policies, tariffs, or trade relations may evolve in the future, which could adversely affect our business, results of operations, effective income tax rate, liquidity, and net income. In addition, other countries may change their business and trade policies in anticipation of or in response to increased import tariffs and other changes in U.S. trade policy and regulations already enacted or that may be enacted in the future. The degree of our exposure is dependent on, among other things, the type of goods, rates imposed, and timing of tariffs. The impact to our business, including net sales and gross margin, will be influenced in part by merchandising and pricing strategies in response to potential cost increases by us and our competitors. While these potential impacts are uncertain, they could have an adverse impact on our financial results.

Financial instability among key vendors, political instability and labor unrest in source countries or elsewhere in our supply chain, changes in the total costs in our supply chain (including fuel and currency exchange rates), labor costs or labor shortages among our vendors, port labor disputes and security, the outbreak of pandemics, weather-related events, natural disasters, armed conflicts, work stoppages, shipping capacity restraints, changes in trade policy, retaliatory trade restrictions imposed by either the United States or a major source country, tariffs or duties, fluctuations in currency exchange rates and transport availability, capacity, and costs are beyond our control and could negatively impact our business if they seriously disrupted the movement of products through our supply chain or increased their costs. In recent years, U.S. ports have been impacted by capacity constraints, port congestion and delays, periodic labor disputes, security issues, weather-related events, and natural disasters, which have been further exacerbated by the COVID-19 pandemic. Additionally, as we add fulfillment capabilities or pursue strategies with different fulfillment requirements, our fulfillment network becomes increasingly complex and operating it becomes more challenging. If our fulfillment network does not operate properly or if a vendor fails to deliver on its commitments, we experience delays in inventory, increased delivery costs or merchandise out-of-stocks that could lead to lost sales and decreased customer confidence, and adversely affect our results of operations.

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Our inability to effectively and efficiently manage and maintain our relationships with selected suppliers of brand name products could negatively impact our business operations and financial results.
We form strategic relationships with selected suppliers to market and develop products under a variety of recognized and respected national and international brand names. We also have relationships with certain suppliers to enable us to sell proprietary products which differentiate us from other retailers. The inability to effectively and efficiently manage and maintain our relationships with these suppliers could negatively impact our business operations and financial results.

Failure of a key vendor or service provider that we cannot quickly replace could disrupt our operations and negatively impact our business, financial condition and results of operations.
We rely upon a number of vendors as the sole or primary source of some of the products we sell. We also rely upon many independent service providers for technology solutions and other services that are important to many aspects of our business. Many of these vendors and service providers have certain products or specialized skills needed to support our business concept and our strategies. If these vendors or service providers discontinue operations or are unable to perform as expected or if we fail to manage them properly or we are unable to replace them quickly, our business could be adversely affected, at least temporarily, until we are able to replace them.

Failures relating to our third-party installer program or by our third-party installers could result in increased operational and legal risks and negatively impact our business, financial condition and results of operations.
We contract with third-party installers to provide installation services to our customers, and, as the general contractor, we are subject to regulatory requirements and risks applicable to general contractors, including certain licensing and permitting requirements, and those relating to the quality and performance of our third-party installers. Our or our third-party installers' failures to effectively manage such requirements and internal processes regarding installation services could result in lost sales, fines and lawsuits, as well as damage to our reputation, and may result in the loss of our general contractor licenses, which could negatively affect our business.

Technology and Cybersecurity Risks

Our financial performance could be adversely affected if our information systems or the information systems of third-party vendors are seriously disrupted or we fail to properly maintain, improve, upgrade and expand those systems.
Our efforts to provide an omnichannel experience for our customers include investing in, maintaining and making ongoing improvements of our existing information systems that support operations, such as sales, inventory replenishment, merchandise ordering, project design and execution, transportation, receipt processing and fulfillment. We also engage third-party vendors for a variety of reasons, including for digital storage technology and content delivery. Such vendors may have access to information about our customers, associates, or vendors. Our systems and the systems of third-party vendors are subject to damage or interruption as a result of catastrophic events, power outages, viruses, malicious attacks and telecommunications failures, or other vulnerabilities and irregularities, and as a result we may incur significant expense, data loss, as well as, an erosion of customer confidence. Additionally, we continually make investments in our systems which may introduce disruption. Our financial performance could be adversely affected if our information systems are seriously disrupted or we fail to properly maintain, improve, upgrade and expand those systems.

As customer-facing technology systems become an increasingly important part of our omnichannel sales and marketing strategy, the failure of those systems to perform effectively and reliably could keep us from delivering positive customer experiences.
Access to the Internet from computers, tablets, smart phones and other mobile communication devices has empowered our customers and changed the way they shop and how we interact with them. Our websites, including Lowes.com, are a sales channel for our products, and are also a method of making product, project and other relevant information available to our customers that impacts our in-store sales. Additionally, we have multiple affiliated websites and mobile apps through which we seek to inspire, inform, cross-sell, establish online communities among, and otherwise interact with our customers, including through online visualization and configuration tools. Performance issues with these customer-facing technology systems, including temporary outages caused by distributed denial of service, ransomware, or other cyber-attacks, or a complete failure of one or more of them without a disaster recovery plan that can be quickly implemented, could quickly destroy the positive benefits they provide to our home improvement business and negatively affect our customers' perceptions of Lowe's as a reliable online vendor and source of information about home improvement products and services.

Our business and our reputation could be adversely affected by cybersecurity incidents and the failure to protect customer, employee, vendor, or Company information or to comply with evolving regulations relating to our obligation to protect our systems, assets and such information.

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Cyber attacks and tactics designed to gain access to and exploit sensitive information by breaching mission critical systems of large organizations are constantly evolving, and high profile security breaches leading to unauthorized release of sensitive customer information have occurred in recent years with increasing frequency at a number of major U.S. companies, including several large retailers, despite widespread recognition of the cyber-attack threat and improved data protection methods. As with many other retailers, we collect, process, transmit, store, and delete certain personal information about our customers, employees and vendors, as well as confidential, sensitive, proprietary and business, personal and payment card information. Additionally, we use third-party service providers for certain services, such as authentication, content delivery, back-office support, fraud prevention, order and service fulfillment, supply chain management, customer service, workforce management, and other functions, and we provide such third-party service providers with personal and other confidential information necessary for the services concerned. We are subject to the risk that unauthorized parties will attempt to gain access to our systems or our information through fraud or other means of deceiving our associates, third party providers, or vendors. Certain of our third-party vendors have been subject to disruptions due to ransomware and other cyber attacks. We and our third-party service providers may not be able to adequately anticipate or prevent a future breach in our or their systems that results in the unauthorized access to, destruction, misuse, or release of personal information or other sensitive data. It can be difficult to preempt or detect ever-evolving forms of cyber-attacks. A ransomware attack could prevent us or our third-party service providers from accessing data or systems that support Lowe’s operations. Our information security or our service providers’ information security may also be compromised because of human errors, including by employees, or system errors. Our systems and our service providers’ systems are additionally vulnerable to a number of other causes, such as critical infrastructure outages, computer viruses, technology system failures, catastrophic events or cyber-attacks, including the use of malicious codes, worms, phishing, and ransomware. In the event that our systems are breached or damaged for any reason, we may also suffer loss or unavailability of data and interruptions to our business operations while such breach or damage is being remedied. Should these events occur, the unauthorized disclosure, loss or unavailability of data and disruption to our business may have a material adverse effect on our reputation, drive existing and potential customers away and lead to financial losses from remedial actions, or potential liability, including possible litigation and punitive damages. A security breach resulting in the unauthorized release of data from our information systems or our third-party service providers’ information systems could also materially increase the costs we already incur to protect against such risks and require dedication of substantial resources to manage the aftermath of such a breach.

Data privacy and cybersecurity laws in the United States and internationally are constantly changing, and the implementation of these laws has become more complex. In the United States alone, we may be subject to regulation at both the federal and state level. For example, the California Consumer Privacy Act of 2018 and its subsequent amendment grants California consumers certain rights over their personal information and imposes stringent requirements on the collection, use and sharing of “personal information” of California consumers. Other U.S. states are proposing or have adopted similar laws related to the protection of personal information, including the Virginia Consumer Data Protection Act and the Colorado Privacy Act, both of which will go into effect in 2023, and the U.S. federal government is also considering federal privacy legislation. In order to maintain our compliance with such laws as they come to fruition, we may sustain increased costs in order to continually evaluate our policies and processes and adapt to new requirements that are or become applicable to us. As the regulatory environment relating to retailers’ and other companies’ obligation to protect personal information becomes stricter, a material failure on our part to comply with applicable regulations could subject us to fines, other regulatory sanctions or government investigation, and potentially to lawsuits brought by private individuals, regulators or states’ attorney general. Such violation or perceived violation of privacy, including improper collection, use of sharing of personal information, or failure to sufficiently disclose privacy practice, can adversely affect the trust that customers, employees, and business partners have in us related to their personal information.

We are subject to payments-related risks that could increase our operating costs, expose us to fraud, subject us to potential liability and potentially disrupt our business.
We accept payments using a variety of methods, including credit cards, debit cards, credit accounts, our private label and co-branded credit cards, PayPal, trade credit, gift cards, cash, consumer invoicing and physical bank checks, and we may offer different payment options over time. These payment options subject us to many compliance requirements, including, but not limited to, compliance with payment card association operating rules, including data security rules, certification requirements, rules governing electronic funds transfers and Payment Card Industry Data Security Standards. They also subject us to potential fraud by criminal elements seeking to discover and take advantage of security vulnerabilities that may exist in some of these payment systems. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit

cards, debit cards, electronic checks, gift cards and promotional financing, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected.

Investment-Related Risks

Our strategic transactions involve risks, and we may not realize the expected benefits because of numerous uncertainties and risks.
We regularly consider and enter into strategic transactions, including mergers, acquisitions, joint ventures, investments and other growth, market and geographic expansion strategies, with the expectation that these transactions will result in increases in sales, cost savings, synergies and other various benefits. Our ability to deliver the expected benefits from any strategic transaction is subject to numerous uncertainties and risks, including our ability to integrate personnel, labor models, financial, IT and other systems successfully; disruption of our ongoing business and distraction of management; hiring additional management and other critical personnel; and increasing the scope, geographic diversity and complexity of our operations. Effective internal controls are necessary to provide reliable and accurate financial reports, and the integration of businesses may create complexity in our financial systems and internal controls and make them more difficult to manage. Integration of businesses into our internal control system could cause us to fail to meet our financial reporting obligations. Additionally, any impairment of goodwill or other assets acquired or divested in a strategic transaction or charges to earnings associated with any strategic transaction, may materially reduce our earnings. Our shareholders may react unfavorably to our strategic transactions. We may not realize any anticipated benefits from such transactions, we may be exposed to additional liabilities of any acquired business or joint venture, and we may be exposed to litigation in connection with the strategic transaction. Further, we may finance these strategic transactions by incurring additional debt, which could increase leverage or impact our ability to access capital in the future.

Operating internationally presents unique challenges, including some that have required us to adapt our store operations, merchandising, marketing, and distribution functions to serve customers in Canada. Our business and results of operations could be negatively affected if we are unable to effectively address these challenges.
We operate stores in Canada. Expanding and operating internationally presents unique challenges that may increase the anticipated costs and risks of operation and expansion and slow the anticipated rate of expansion. Our future operating results in Canada or in other countries or regions in which we may operate in the future could be negatively affected by a variety of factors, including unfavorable political or economic factors, adverse tax consequences, volatility in foreign currency exchange rates, increased difficulty in enforcing intellectual property rights, costs and difficulties of managing international operations, challenges with identifying and contracting with local suppliers and other risks created as a result of differences in culture, laws and regulations. These factors could restrict our ability to operate our international businesses profitably and therefore have a negative impact on our results of operations and financial position. In addition, our reported results of operations and financial position could also be negatively affected by exchange rates when the activities and balances of our foreign operations are translated into U.S. dollars for financial reporting purposes.

Legal, Regulatory and Other External Risks

The COVID-19 pandemic has affected and is expected to continue to affect our business, results of operations and financial condition.
The COVID-19 pandemic had a significant effect on us in 2020 and 2021, affecting our business operations, demand for our products and services, our costs of doing business, availability of labor, access to inventory, supply chain operations, our ability to predict future performance, exposure to litigation, and our financial condition, among other things. There is considerable uncertainty regarding the continuing effects of the pandemic, including the possible recurrence of measures to try to contain the virus, such as travel restrictions, quarantines, “shelter-in-place” orders, and various other restrictive measures.

In addition, we have seen an increase in spending on home improvement products and projects during the pandemic, as customers have focused on their homes and have spent less on other items like travel and entertainment. As the pandemic begins to subside, customers may shift their spending away from home improvement and back to other areas, which may have an adverse impact on our sales.

The extent to which the COVID-19 pandemic further impacts our business, results of operations and financial condition will depend on numerous evolving factors which are uncertain and cannot be predicted, including among others:

- the duration and scope of the pandemic and associated disruptions, including whether there are additional “waves” or other continued periods of increases or spikes in the number of COVID-19 cases, future variants or related strains of the virus in areas where we or our suppliers operate;

- the effects of current and future governmental and public responses to changing conditions;
- the availability of, and prevalence of access to, effective medical treatments and vaccines for COVID-19; and
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates and recessionary pressures.

Any of the foregoing factors, or other effects of the COVID-19 pandemic or another pandemic, may result in adverse impacts to our business, results of operations, and financial condition. The impacts of the COVID-19 pandemic may also exacerbate other risks discussed herein.

Our sales are dependent upon the health and stability of the general economy. Adverse changes in economic factors specific to the home improvement industry may negatively impact the rate of growth of our total sales and comparable sales.
Many U.S. and global economic factors may adversely affect our financial performance. These include, but are not limited to, periods of slow economic growth or recession, home price appreciation or decreasing housing turnover, volatility and/or lack of liquidity from time to time in U.S. and world financial markets and the consequent reduced availability and/or higher cost of borrowing to Lowe's and its customers, slower rates of growth in real disposable personal income that could affect the rate of growth in consumer spending, inflation and its impacts on discretionary spending and on our costs, shortages, and other disruptions in the labor supply, consumer debt levels, changes in tax rates and policy, outbreak of pandemics, fluctuations in fuel and energy costs, inflation or deflation of commodity prices, natural disasters, armed conflicts, and acts of both domestic and international terrorism. Sales of many of our product categories and services are driven by the activity level of home improvement projects. Adverse development in these factors could result in a decrease in home improvement activity which could reduce demand for our products and services.

Our business could be affected by uncharacteristic or significant weather conditions, including natural disasters and changes in climate, as well as other catastrophic events, which could impact our operations.
Natural disasters, such as hurricanes and tropical storms, fires, floods, tornadoes, and earthquakes; unseasonable, or unexpected or extreme weather conditions, such as major or extended winter storms or droughts, whether as a result of climate change or otherwise; severe changes in climate; pandemics and public health concerns; acts of terrorism or violence, including active shooter situations; civil unrest; or similar disruptions and catastrophic events can affect consumer spending and confidence and consumers' disposable income, particularly with respect to home improvement or construction projects, and could have an adverse effect on our financial performance. These types of events can also adversely affect our work force and prevent associates and customers from reaching our stores and other facilities. They can also disrupt or disable operations of stores, support centers, and portions of our supply chain and distribution network, including causing reductions in the availability of inventory and disruption of utility services. In addition, these events may affect our information systems, resulting in disruption to various aspects of our operations, including our ability to transact with customers and fulfill orders and to communicate with our stores. Unseasonable, unexpected or extreme weather conditions such as excessive precipitation, warm temperatures during the winter season, or prolonged or extreme periods of warm or cold temperatures, could render a portion of our inventory damaged or unsellable. As a consequence of these or other catastrophic or uncharacteristic events, we may experience interruption to our operations, increased costs, or losses of property, equipment or inventory, which would adversely affect our revenue and profitability.

Our business and operations are subject to risks related to the long-term effects of global climate change.
Our business and operations are subject to inherent climate-related risks. These include both physical risks (such as extreme weather conditions or rising sea levels) and transition risks (such as regulatory or technology changes), which are expected to be widespread and unpredictable. Climate change, extreme weather conditions, wildfires, droughts, and rising sea levels may impact the areas in which the Company's operations and facilities are located, and they could also affect our ability to procure commodities at costs and in quantities we currently experience. Such events could result in an increase in our costs and expenses and harm our future revenue, cash flows and financial performance. Government regulations limiting carbon dioxide and other greenhouse gas emissions may increase compliance and merchandise costs, and other regulations affecting energy inputs could materially affect our profitability. In addition, we also use natural gas, diesel fuel, gasoline and electricity in our operations, all of which could face increased regulation as a result of climate change or other environmental concerns.

Our costs of doing business could increase as a result of changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations.

Our business is subject to a wide array of federal, state and local laws and regulations. In recent years, a number of new laws and regulations have been adopted, and there has been expanded enforcement of certain existing laws and regulations by federal, state and local agencies. These laws and regulations, and related interpretations and enforcement activity, may change as a result of a variety of factors, including political, economic or social events. Changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations governing minimum wage or living wage requirements, collective bargaining units, the classification of exempt and non-exempt employees, the distinction between employees and contractors, other wage, labor or workplace regulations, health care, data privacy and cybersecurity, the sale and pricing of some of our products, transportation, logistics, international trade, responsible sourcing, supply chain transparency, taxes, unclaimed property, sustainability, the environment and climate change, including energy costs and consumption, could increase our costs of doing business or impact our operations. In addition, if we fail to comply with other applicable laws and regulations, including the Foreign Corrupt Practices Act and local anti-bribery laws, we could be subject to reputation and legal risk, including government enforcement action and class action civil litigation, which could adversely affect our business, financial condition and results of operations.

Future litigation or governmental proceedings could result in material adverse consequences, including judgments or settlements, negatively affecting our business, financial condition and results of operations.
We are, and in the future will become, involved in lawsuits, including consumer, commercial, employment, tort and other litigation, regulatory inquiries, and governmental and other legal proceedings arising out of the ordinary course of our business. Some of these proceedings may raise difficult and complicated factual and legal issues and can be subject to uncertainties and complexities. The timing of the final resolutions to lawsuits, regulatory inquiries and governmental and other legal proceedings is typically uncertain. Additionally, the possible outcomes of, or resolutions to, these proceedings could include adverse judgments or settlements, either of which could require substantial payments. Furthermore, defending against these proceedings may require a diversion of management's attention and resources. None of the legal proceedings in which we are currently involved, individually or collectively, are considered material.

The inflation or deflation of commodity prices could affect our prices, demand for our products and our sales.
Prices of certain commodity products, including lumber, copper, and other raw materials, are historically volatile and are subject to fluctuations arising from changes in domestic and international supply and demand, labor costs, competition, market speculation, government regulations, tariffs and trade restrictions, and periodic delays in delivery. Rapid and significant changes in commodity prices, such as changes in lumber prices, affect the demand for our products and our sales.

Tax matters could adversely affect our results of operations and financial conditions.
We may be affected by higher rates of federal, state, or local tax imposed as a result of political developments or economic conditions, which could affect our effective tax rate. Our effective tax rate and future tax liability could be adversely affected by regulatory and legal changes, the results of tax audits and examinations, and changes in accounting principles and interpretations relating to tax matters, all of which could negatively impact our business. In addition, changes in tax laws and regulations that impact our customers and counterparties or the economy generally may also impact our financial condition and results of operations.

Liquidity and access to capital rely on efficient, rational and open capital markets and are dependent on Lowe's credit strength. Our inability to access capital markets could negatively affect our business, financial performance and results of operations.
We have relied on the public debt markets to fund portions of our capital investments and the commercial paper market and bank credit facilities to fund our working capital needs. Our access to these markets depends on our strong credit ratings, the overall condition of debt capital markets and our operating performance. Disruption in the financial markets or an erosion of our credit strength or declines on our credit rating could impact negatively our ability to meet capital requirements or fund working capital needs.

Item 1B - Unresolved Staff Comments

None.

Item 2 - Properties

At January 28, 2022, our properties consisted of 1,971 stores in the United States and Canada with a total of approximately 208 million square feet of selling space. Of the total stores operating at January 28, 2022, approximately 84% are owned, which includes stores on leased land, with the remainder being leased from third parties. We also operate regional distribution centers and other facilities to support distribution and fulfillment, as well as data centers and various support offices. Our executive offices are located in Mooresville, North Carolina.

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Item 3 - Legal Proceedings

The Company is from time to time a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. With respect to such lawsuits, claims and proceedings, the Company records reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. The Company does not believe that any of these proceedings, individually or in the aggregate, would be expected to have a material adverse effect on its results of operations, financial position, or cash flows. The Company maintains liability insurance for certain risks that are subject to certain self-insurance limits.

Item 4 - Mine Safety Disclosures

Not applicable.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Set forth below is a list of names and ages of the executive officers of the registrant indicating all positions and offices with the registrant held by each such person and each person's principal occupations or employment during the past five years unless otherwise noted. Each executive officer of the registrant is elected by the board of directors. Each executive officer of the registrant holds office from the date of election until a successor is elected or until his or her death, resignation or removal.

Name	Age	Title
Marvin R. Ellison	57	Chairman, President and Chief Executive Officer since May 2021; President and Chief Executive Officer, July 2018 – May 2021; Chairman of the Board and Chief Executive Officer, J.C. Penney Company, Inc. (a department store retailer), 2016 – May 2018; Chief Executive Officer, J.C. Penney Company, Inc., 2015 – 2016; President, J.C. Penney Company, Inc., 2014 – 2015; Executive Vice President – U.S. Stores, The Home Depot, Inc. (a home improvement retailer) 2008 – 2014.
William P. Boltz	59	Executive Vice President, Merchandising since August 2018; President and CEO, Chervon North America (a global power tool supplier), 2015 – 2018; President and owner of The Boltz Group, LLC (a retail consulting firm), 2013 – 2015; Senior Vice President, Merchandising, The Home Depot, Inc. (a home improvement retailer), 2006 – 2012.
David M. Denton	56	Executive Vice President, Chief Financial Officer since November 2018; Executive Vice President and Chief Financial Officer, CVS Health Corporation (a diversified health solutions company), 2010 – November 2018.
Janice Dupré	57	Executive Vice President, Human Resources since June 2020; Senior Vice President, Talent Management & Diversity and Global Chief Diversity Officer, January 2020 – June 2020; Vice President, Leadership Development and Global Chief Diversity Officer, November 2017 – January 2020; Vice President of Diversity & Inclusion, McKesson Corporation (a healthcare company), June 2015 – October 2017.
Donald E. Frieson	63	Executive Vice President, Supply Chain since August 2018; Executive Vice President, Operations, Sam's Club (a general merchandise retailer), 2014 – 2017; Senior Vice President, Replenishment, Planning and Real Estate, Sam's Club, 2012 – 2014.
Seemantini Godbole	52	Executive Vice President, Chief Information Officer since November 2018; Senior Vice President, Digital and Marketing Technology, Target Corporation (a department store retailer), January 2017 – November 2018; Vice President, Digital and Marketing Technology, Target Corporation, 2013 – December 2016.
Ross W. McCanless	64	Executive Vice President, General Counsel and Corporate Secretary since 2018; Chief Legal Officer, Secretary and Chief Compliance Officer, 2016 – 2018; General Counsel, Secretary and Chief Compliance Officer, 2015 – 2016; Chief Legal Officer, Extended Stay America, Inc. (a hotel operating company) and ESH Hospitality, Inc. (a hotel real estate investment company), 2013 – 2014.
Joseph M. McFarland III	52	Executive Vice President, Stores since August 2018; Executive Vice President and Chief Customer Officer, J.C. Penney Company, Inc. (a department store retailer), March 2018 – August 2018; Executive Vice President, Stores, J.C. Penney Company, Inc., 2016 – March 2018; Divisional President, The Home Depot, Inc. (a home improvement retailer), 2007 – 2015.
Marisa F. Thalberg	52	Executive Vice President, Chief Brand and Marketing Officer since February 2020; Global Chief Brand Officer, Taco Bell Corporation (a fast-food company), January 2018 – February 2020; Chief Marketing Officer, Taco Bell Corporation, January 2016 – January 2018; Chief Brand Engagement Officer, Taco Bell Corporation, May 2015 – January 2016; Vice President, Corporate Digital and Content Marketing Worldwide, The Estée Lauder Companies (a beauty products company), 2007 – May 2015.

Part II

Item 5 - Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Lowe’s common stock is traded on the New York Stock Exchange (NYSE). The ticker symbol for Lowe’s is “LOW”. As of March 17, 2022, there were 21,284 holders of record of Lowe’s common stock.

Total Return to Shareholders

The following information in Item 5 of this Annual Report is not deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

The following table and graph compare the total returns (assuming reinvestment of dividends) of the Company’s common stock, the S&P 500 Index (S&P 500) and the S&P Retailing Industry Group Index (S&P Retail Index). The graph assumes $100 invested on February 3, 2017 in the Company’s common stock and each of the indices.

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	2/3/2017	2/2/2018	2/1/2019	1/31/2020	1/29/2021	1/28/2022
Lowe’s	$ 100.00	$ 141.08	$ 137.68	$ 167.96	$ 245.12	$ 350.10
S&P 500	100.00	122.62	122.55	148.95	174.62	211.27
S&P Retail Index	$ 100.00	$ 142.48	$ 154.19	$ 185.97	$ 262.93	$ 278.43

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Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of the Company's common stock made during the fourth quarter of fiscal 2021:

	Total Number of Shares Purchased [1]		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]		Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
October 30, 2021 - November 26, 2021 [3]	12,081,035	$	248.99	12,080,454	$	7,307,846,188
November 27, 2021 - December 31, 2021	1,147		253.46	—		20,307,846,188
January 1, 2022 - January 28, 2022 [3]	4,059,224		245.34	4,044,512		19,727,849,966
As of January 28, 2022	**16,141,406**	**$**	**248.07**	**16,124,966**	**$**	**19,727,849,966**

[1] *The total number of shares purchased includes shares withheld from employees to satisfy either the exercise price of stock options or the statutory withholding tax liability upon the vesting of share-based awards.*

[2] *On December 15, 2021, the Company announced that its Board of Directors authorized an additional $13.0 billion of share repurchases, in addition to the $15.0 billion of share repurchases authorized by the Board of Directors in December 2020, with no expiration.*

[3] *In November 2021, the Company entered into an Accelerated Share Repurchase (ASR) agreement with a third-party financial institution to repurchase the Company's common stock. At inception, pursuant to the agreement, the Company paid $3.0 billion to the financial institution and received an initial delivery of 10.3 million shares. In January 2022, prior to the end of the fiscal year, the Company finalized the transaction and received an additional 1.6 million shares. The average price paid per share in settlement of the ASR agreement included in the table above was determined with reference to the volume-weighted average price of the Company's common stock over the term of the ASR agreement. See Note 10 to the consolidated financial statements included herein for additional information regarding share repurchases.*

Item 6 - Reserved

Not applicable.

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the two-year period ended January 28, 2022 (our fiscal years 2021 and 2020). Unless otherwise noted, all references herein for the years 2021, 2020, and 2019 represent the fiscal years ended January 28, 2022, January 29, 2021, and January 31, 2020, respectively. We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. This discussion should be read in conjunction with our consolidated financial statements and notes to the consolidated financial statements included in this Annual Report that have been prepared in accordance with accounting principles generally accepted in the United States of America. This discussion and analysis is presented in four sections:

- Executive Overview
- Operations
- Financial Condition, Liquidity and Capital Resources
- Critical Accounting Policies and Estimates

EXECUTIVE OVERVIEW

Performance Overview

Net sales for fiscal 2021 increased 7.4% over fiscal year 2020 to $96.3 billion. The increase in total sales was primarily driven by comparable sales growth. Comparable sales increased 6.9% over fiscal year 2020, driven by an 11.1% increase in comparable average ticket, partially offset by a 4.2% decrease in comparable customer transactions. Net earnings for fiscal 2021 increased 44.7% to $8.4 billion. Diluted earnings per common share increased 55.3% in fiscal year 2021 to $12.04 from $7.75 in 2020. Included in the fiscal 2020 results are a $1.1 billion pre-tax loss on extinguishment of debt from cash tender offers to purchase and retire an aggregate principal amount of $3.0 billion in outstanding notes, as well as operating costs related to the Canada restructuring actions. Adjusting for these items, diluted earnings per common share increased 35.9% to $12.04 in 2021 from adjusted diluted earnings per common share of $8.86 in 2020 (see the non-GAAP financial measures discussion).

For 2021, cash flows from operating activities were $10.1 billion, with $1.9 billion used for capital expenditures. Continuing to deliver on our commitment to return excess cash to shareholders, the Company repurchased $13.1 billion of common stock and paid $2.0 billion in dividends during the year.

In 2021, we experienced comparable sales increases in eleven of fifteen product categories and all fifteen U.S. regions. Our Total Home strategy continues to gain momentum as we provide a one-stop solution for both DIY and Pro customers. Throughout fiscal 2021, we maintained focus on the Pro customer with improved in-stock inventory levels and store layout, enhanced service offerings, and expanded brand and product offerings that meet their project needs. We enhanced the customer online shopping experience with improved search and navigation functionality and expanded on-trend inventory assortments. Our private brand product assortment has also elevated our performance with the DIY customer, especially in Home Décor. In addition, we have expanded our omnichannel fulfillment capabilities. During 2021, we converted three geographic areas to our market-based delivery model for big and bulky product. In this new model, product flows directly to customer homes from our distribution network, bypassing stores altogether. As part of our fulfillment capabilities, our customers can also now track appliance deliveries in real time and we continue to expand our same-day and next-day fulfillment options.

In the stores, our disciplined focus on driving operating leverage through our Perpetual Productivity Improvement (PPI) initiatives resulted in operational process improvements that reduced the amount of time our associates spend on tasking activities and can instead focus on serving our customers. As part of these initiatives, we recently launched a new store inventory management system that provides associates real-time visibility to inventory in their store and reduces non-productive hours spent looking for product. In addition, we expanded our simplified user interface introduced earlier in the year across the sales floor which accelerates the associate training process and allows associates to focus on customer service while reducing customer wait times.

Looking Forward

As part of our continued efforts around our Total Home strategy, we are focused on further enhancing our omnichannel capabilities in 2022 across three key areas: expanding our online assortment, enhancing the user experience, and improving

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fulfillment. We will continue to expand our Lowes.com assortment to meet our customers' design and lifestyle needs, while at the same time, enhancing the user experience with upgrades to the visualization and configuration tools we offer online. As we head into spring, we have leveraged our expanded supply chain network to position our in-stock inventory for our heavy selling season.

While there is uncertainty in the economy with rising interest rates and inflation, our outlook for the home improvement industry remains robust, and we believe we are well-positioned to accelerate our market share gains through our Total Home strategy.

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Table of Contents

OPERATIONS

The following tables set forth the percentage relationship to net sales of each line item of the consolidated statements of earnings, as well as the percentage change in dollar amounts from the prior year. This table should be read in conjunction with the following discussion and analysis and the consolidated financial statements, including the related notes to the consolidated financial statements.

			Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year	Percentage Increase / (Decrease) in Dollar Amounts from Prior Year
	2021	**2020**	**2021 vs. 2020**	**2021 vs. 2020**
Net sales	**100.00 %**	**100.00 %**	**N/A**	**7.4 %**
Gross margin	**33.30**	**33.01**	**29**	**8.4**
Expenses:				
Selling, general and administrative	19.01	20.68	(167)	(1.2)
Depreciation and amortization	1.73	1.56	17	18.8
Operating income	**12.56**	**10.77**	**179**	**25.4**
Interest – net	0.92	0.95	(3)	4.4
Loss on extinguishment of debt	—	1.18	(118)	(100.0)
Pre-tax earnings	**11.64**	**8.64**	**300**	**44.8**
Income tax provision	2.87	2.13	74	45.3
Net earnings	**8.77 %**	**6.51 %**	**226**	**44.7 %**

			Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year	Percentage Increase / (Decrease) in Dollar Amounts from Prior Year
	2020	**2019**	**2020 vs. 2019**	**2020 vs. 2019**
Net sales	**100.00 %**	**100.00 %**	**N/A**	**24.2 %**
Gross margin	**33.01**	**31.80**	**121**	**28.9**
Expenses:				
Selling, general and administrative	20.68	21.30	(62)	20.6
Depreciation and amortization	1.56	1.75	(19)	10.9
Operating income	**10.77**	**8.75**	**202**	**52.8**
Interest – net	0.95	0.96	(1)	22.9
Loss on extinguishment of debt	1.18	—	118	N/A
Pre-tax earnings	**8.64**	**7.79**	**85**	**37.6**
Income tax provision	2.13	1.86	27	41.8
Net earnings	**6.51 %**	**5.93 %**	**58**	**36.3 %**

The following table sets forth key metrics utilized by management in assessing business performance. This table should be read in conjunction with the following discussion and analysis and the consolidated financial statements, including the related notes to the consolidated financial statements.

Table of Contents

Other Metrics		2021		2020		2019
Comparable sales increase [1]		6.9 %		26.1 %		2.6 %
Total customer transactions (in millions)		1,002		1,046		921
Average ticket [2]	$	96.09	$	85.67	$	78.36
At end of year:						
Number of stores		1,971		1,974		1,977
Sales floor square feet (in millions)		208		208		208
Average store size selling square feet (in thousands) [3]		106		105		105
Return on average assets [4]		17.5 %		12.4 %		10.8 %
Net earnings to average debt and shareholders' (deficit)/equity [5]		32.3 %		21.9 %		17.2 %
Return on invested capital [5]		35.3 %		27.7 %		19.9 %

[1] *A comparable location is defined as a retail location that has been open longer than 13 months. A location that is identified for relocation is no longer considered comparable in the month of its relocation. The relocated location must then remain open longer than 13 months to be considered comparable. A location we have decided to close is no longer considered comparable as of the beginning of the month in which we announce its closing. Comparable sales include online sales, which positively impacted the comparable sales increase in fiscal 2021, fiscal 2020, and fiscal 2019 by approximately 150 basis points, 565 basis points, and 25 basis points, respectively.*

[2] *Average ticket is defined as net sales divided by the total number of customer transactions.*

[3] *Average store size selling square feet is defined as sales floor square feet divided by the number of stores open at the end of the period. The average Lowe's-branded home improvement store has approximately 112,000 square feet of retail selling space.*

[4] *Return on average assets is defined as net earnings divided by average total assets for the last five quarters.*

[5] *Return on invested capital is calculated using a non-GAAP financial measure. Net earnings to average debt and shareholders' (deficit)/equity is the most comparable GAAP ratio. See below for additional information and reconciliations of non-GAAP measures.*

Non-GAAP Financial Measures

Adjusted Diluted Earnings Per Share

Adjusted diluted earnings per share is a non-GAAP financial measure. Management believes this non-GAAP financial measure provides useful insight for analysts and investors in evaluating what management considers the Company's core financial performance. Adjusted diluted earnings per share excludes the impact of discrete items, further described below, not contemplated in the Company's business outlook for fiscal 2020. Unless otherwise noted, the income tax effect of these adjustments is calculated using the marginal rate for the period. There were no non-GAAP adjustments in fiscal 2021.

Fiscal 2020 Impacts

- In the third quarter of fiscal 2020, the Company recognized a $1.1 billion loss on extinguishment of debt in connection with the cash tender offers on an aggregate principal amount of $3.0 billion in outstanding notes (Loss on extinguishment of debt).

- Beginning in the third quarter of fiscal 2019, the Company began a strategic review of its Canadian operations, and in the fourth quarter of fiscal 2019, the Company announced additional actions to improve future performance and profitability of its Canadian operations. As a result of this review and related actions, the Company recognized pre-tax operating costs of $45 million related to inventory write-downs and other closing costs in fiscal 2020 (Canada restructuring).

Adjusted diluted earnings per share should not be considered an alternative to, or more meaningful indicator of, the Company's diluted earnings per common share as prepared in accordance with GAAP. The Company's methods of determining this non-GAAP financial measure may differ from the method used by other companies and may not be comparable.

Table of Contents

	2020		
	Pre-Tax Earnings	Tax	Net Earnings
Diluted earnings per share, as reported			**$ 7.75**
Non-GAAP adjustments – per share impacts			
Loss on extinguishment of debt	1.41	(0.36)	1.05
Canada restructuring	0.06	—	0.06
Adjusted diluted earnings per share			**$ 8.86**

Return on Invested Capital

Return on Invested Capital (ROIC) is calculated using a non-GAAP financial measure. Management believes ROIC is a meaningful metric for analysts and investors as a measure of how effectively the Company is using capital to generate profits. Although ROIC is a common financial metric, numerous methods exist for calculating ROIC. Accordingly, the method used by our management may differ from the methods used by other companies. We encourage you to understand the methods used by another company to calculate ROIC before comparing its ROIC to ours.

We define ROIC as the rolling 12 months' lease adjusted net operating profit after tax (Lease adjusted NOPAT) divided by the average of current year and prior year ending debt and shareholders' (deficit)/equity. Lease adjusted NOPAT is a non-GAAP financial measure, and net earnings is considered to be the most comparable GAAP financial measure. The calculation of ROIC, together with a reconciliation of net earnings to Lease adjusted NOPAT, is as follows:

(In millions, except percentage data)	2021	2020	2019
Calculation of Return on Invested Capital			
Numerator			
Net earnings	$ 8,442	$ 5,835	$ 4,281
Plus:			
Interest expense – net	885	848	691
Operating lease interest	160	171	195
Loss on extinguishment of debt	—	1,060	—
Provision for income taxes	2,766	1,904	1,342
Lease adjusted net operating profit	12,253	9,818	6,509
Less:			
Income tax adjustment [1]	3,024	2,416	1,554
Lease adjusted net operating profit after tax	$ 9,229	$ 7,402	$ 4,955
Denominator			
Average debt and shareholders' (deficit)/equity [2]	$ 26,109	$ 26,686	$ 24,950
Net earnings to average debt and shareholders' (deficit)/ equity	**32.3 %**	**21.9 %**	**17.2 %**
Return on invested capital	**35.3 %**	**27.7 %**	**19.9 %**

[1] *Income tax adjustment is defined as net operating profit multiplied by the effective tax rate, which was 24.7%, 24.6%, and 23.9% for 2021, 2020, and 2019, respectively.*

[2] *Average debt and shareholders' (deficit)/equity is defined as average current year and prior year ending debt, including current maturities, short-term borrowings, and operating lease liabilities, plus the average current year and prior year ending total shareholders' (deficit)/equity.*

Fiscal 2021 Compared to Fiscal 2020

Net Sales – Net sales increased 7.4% to $96.3 billion in 2021. The increase in total sales was driven by comparable sales growth. Comparable sales increased 6.9% over the same period, driven by an 11.1% increase in comparable average ticket, partially offset by a 4.2% decline in comparable customer transactions. Comparable sales change during each quarter of the

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fiscal year, as reported, were an increase of 25.9% in the first quarter, decline of 1.7% in the second quarter, increase of 2.2% in the third quarter, and increase of 5.0% in the fourth quarter.

During 2021, we experienced comparable sales increases in eleven of fifteen product categories, led by Electrical, Lumber, and Flooring. We delivered strong comparable sales in Electrical and Lumber due to strong unit demand from Pro customers, as well as unit price increases driven by inflation. New product offerings drove strong sales in Flooring, led by Vinyl Flooring. We experienced lower comparable sales in Paint, Hardware, and Lighting due to cycling prior year DIY demand at the onset of the COVID-19 pandemic. Geographically, all fifteen U.S. regions and Canada experienced positive comparable sales.

Gross Margin – Gross margin as a percentage of sales for 2021 increased 29 basis points compared to 2020. Gross margin was positively impacted by approximately 65 basis points of total rate improvement driven by continued improvement in managing product costs and disciplined pricing strategies, as well as approximately 25 basis points of leverage from higher credit revenue. These benefits were partially offset by 35 basis points of deleverage due to product mix and 30 basis points of deleverage from supply chain costs.

SG&A – SG&A expense for 2021 leveraged 167 basis points as a percentage of sales compared to 2020. This was primarily driven by 115 basis points of leverage due to lower COVID-19 related expenses, including additional compensation to hourly front-line associates, emergency paid leave, and cleaning costs; 45 basis points of leverage in retail operating salaries due to increased sales and improved operating efficiencies as a result of our PPI initiatives; and 30 basis points of leverage due to costs associated with the reset of the layout of our U.S. stores in the prior year. These benefits were partially offset by 20 basis points of deleverage due to the fourth quarter discretionary bonus to front-line associates.

Depreciation and Amortization – Depreciation and amortization expense deleveraged 17 basis points for 2021 as a percentage of sales compared to 2020, driven by ongoing capital investments in store environment, store equipment, and technology projects. Property, less accumulated depreciation, decreased to $19.1 billion at January 28, 2022, compared to $19.2 billion at January 29, 2021.

Interest – Net – Net interest expense is comprised of the following:

(In millions)	2021	2020
Interest expense, net of amount capitalized	$ 869	$ 859
Amortization of original issue discount and loan costs	16	13
Interest on tax uncertainties	12	—
Interest income	(12)	(24)
Interest – net	**$ 885**	**$ 848**

Net interest expense in 2021 leveraged three basis points primarily as a result of increased sales in the current year, offset by interest expense related to the issuance of $2.0 billion unsecured notes in March 2021 and $2.0 billion unsecured notes in September 2021.

Loss on Extinguishment of Debt – During the third quarter of 2020, we repurchased and retired $3.0 billion aggregate principal amount of our outstanding debt resulting in a loss on extinguishment of debt of $1.1 billion.

Income Tax Provision – Our effective income tax rate was 24.7% in 2021 compared to 24.6% in 2020.

Fiscal 2020 Compared to Fiscal 2019

For a comparison of our results of operations, financial condition, liquidity, and capital resources for the fiscal years ended January 29, 2021 and January 31, 2020, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended January 29, 2021, filed with the SEC on March 22, 2021.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Cash flows from operations supplemented with our short-term and long-term borrowings, remain sufficient to fund our operations while allowing us to make strategic investments to support long-term growth and return excess cash to shareholders in the form of dividends and share repurchases. As of January 28, 2022, we held $1.1 billion of cash and cash equivalents, as well as $4.0 billion in undrawn capacity on our revolving credit facilities. We believe these sources of liquidity and our continued access to the capital markets on both a short-term and long-term basis, as needed, are adequate to fund our operations and investments to grow our business, repay our debt as it becomes due, pay dividends, and fund our share repurchases over the next twelve months.

As of January 28, 2022, our material contractual obligations and commercial commitments consist of leases, long-term debt, purchase obligations, and letters of credit. See Note 6, Note 8, and Note 15 of the Notes to the Consolidated Financial Statements in Item 8, "Financial Statements and Supplementary Data", of this Annual Report for amounts outstanding related to leases, long-term debt, and commitments, respectively, as of January 28, 2022.

Cash Flows Provided by Operating Activities

(In millions)	2021	2020
Net cash provided by operating activities	$ 10,113	$ 11,049

Cash flows from operating activities continued to provide the primary source of our liquidity. The decrease in net cash provided by operating activities for the year ended January 28, 2022, versus the year ended January 29, 2021, was due primarily to changes in working capital, partially offset by higher net earnings. Accounts payable increased for fiscal 2021 by $466 million compared to an increase of $3.2 billion in fiscal 2020, driving a reduction of $2.7 billion in operating cash flows for fiscal 2021. Inventory decreased operating cash flow for fiscal 2021 by approximately $1.4 billion compared to a decrease of $3.0 billion for fiscal 2020. The increase in accounts payable and inventory in the prior year was driven by a ramp up in inventory purchase volume to meet sustained customer demand at the beginning of the COVID-19 pandemic. In the current year, we have continued to experience sustained demand levels and maintained a higher level of inventory and related accounts payable. Other operating liabilities decreased $570 million for fiscal 2021 compared to an increase of $813 million in fiscal 2020. The decrease in other operating liabilities in the current year compared to the prior year is primarily driven by COVID-related accrued discretionary compensation for hourly associates in the prior year and timing of tax payments.

Cash Flows Used in Investing Activities

(In millions)	2021	2020
Net cash used in investing activities	$ (1,646)	$ (1,894)

Net cash used in investing activities primarily consists of transactions related to capital expenditures.

Capital expenditures

Our capital expenditures generally consist of investments in our strategic initiatives to enhance our ability to serve customers, improve existing stores, and support expansion plans. Capital expenditures were $1.9 billion in 2021 and $1.8 billion in 2020. The following table provides the allocation of capital expenditures for 2021 and 2020:

	2021	2020
Existing store investments [1]	75 %	85 %
Strategic initiatives [2]	15 %	10 %
New stores, new corporate facilities and international [3]	10 %	5 %
Total capital expenditures	**100 %**	**100 %**

[1] *Includes merchandising resets, facility repairs, replacements of IT and store equipment, among other specific efforts.*
[2] *Represents investments related to our strategic focus areas aimed at improving customers' experience and driving improved performance in the near and long term.*
[3] *Represents expenditures primarily related to land purchases, buildings, and personal property for new store projects and new corporate facilities projects as well as expenditures related to our international operations.*

For 2022, our capital expenditures forecast is approximately $2.0 billion. The following table provides the allocation of our fiscal 2022 capital expenditures forecast:

	2022
Existing store investments	70 %
Strategic initiatives	20 %
New stores, new corporate facilities and international	10 %

Cash Flows Used in Financing Activities

(In millions)	2021	2020
Net cash used in financing activities	$ (12,016)	$ (5,191)

Net cash used in financing activities primarily consist of transactions related to our debt, share repurchases, and cash dividend payments.

Total Debt

In 2021, we issued $4.0 billion of unsecured notes. This is comprised of $2.0 billion of unsecured notes issued in March 2021 and $2.0 billion of unsecured notes issued in September 2021, the proceeds of which were designated for general corporate purposes. In April 2021, we also entered into a $1.0 billion unsecured 364-day term loan facility (the 2021 Term Loan), which was repaid during fiscal 2021. In 2021, we also paid approximately $1.0 billion to retire scheduled debts at maturity.

In December 2021, we entered into a $2.0 billion five-year unsecured revolving third amended and restated credit agreement (the Third Amended and Restated Credit Agreement) with a syndicate of banks. The Third Amended and Restated Credit Agreement amends and restates the Company's amended and restated credit agreement, dated September 10, 2018 (the Second Amended and Restated Credit Agreement), to among other things (i) extend the maturity date of the revolving credit facility to December 2026 and (ii) increase the aggregate availability to a total of $2.0 billion.

Also in December 2021, we amended the five-year unsecured revolving credit agreement dated March 23, 2020 (the 2020 Credit Agreement) with a syndicate of banks. The amendment, among other things, increased the availability of the unsecured revolving credit agreement to $2.0 billion, maturing in March 2025. Subject to obtaining commitments from the lenders and satisfying other conditions specified in the 2020 Credit Agreement and the Third Amended and Restated Credit Agreement, the Company may increase the combined aggregate availability of both agreements by an additional $1.0 billion.

The Third Amended and Restated Credit Agreement and the 2020 Credit Agreement (collectively, the Credit Agreements) support our commercial paper program. The amount available to be drawn under the Credit Agreements is reduced by the amount of borrowings under our commercial paper program. There were no outstanding borrowings under the Company's commercial paper program, the 2020 Credit Agreement, or the Third Amended and Restated Credit Agreement as of January 28, 2022. There were no outstanding borrowings under the commercial paper program, the 2020 Credit Agreement, or the Second Amended and Restated Credit Agreement as of January 29, 2021. Total combined availability under the 2020 Credit Agreement and the Third Amended and Restated Credit Agreement as of January 28, 2022, was $4.0 billion.

The Third Amended and Restated Credit Agreement and the 2020 Credit Agreement contain customary representations, warranties, and covenants. We were in compliance with those covenants at January 28, 2022.

Our ratio of debt to capital (shareholder's (deficit)/equity plus debt) was 124.2% and 93.8% as of January 28, 2022 and January 29, 2021, respectively.

The following table includes additional information related to our debt for 2021 and 2020:

(In millions, except for interest rate data)	2021	2020
Net proceeds from issuance of debt	$ 4,972	$ 7,929
Repayment of debt	$ (2,118)	$ (5,618)
Net change in commercial paper	$ —	$ (941)
Maximum commercial paper outstanding at any month-end	$ 400	$ 1,858
Short-term borrowings outstanding at year-end	$ —	$ —
Weighted-average interest rate of short-term borrowings outstanding	— %	— %

Share Repurchases

We have an ongoing share repurchase program, authorized by the Company's Board of Directors, that is executed through purchases made from time to time either in the open market or through private off-market transactions. We also withhold shares from employees to satisfy tax withholding liabilities on share-based payments. Shares repurchased are returned to authorized and unissued status. The following table provides, on a settlement date basis, the total number of shares repurchased, average price paid per share, and the total amount paid for share repurchases for 2021 and 2020:

(In millions, except per share data)	2021	2020
Total amount paid for share repurchases	$ 13,012	$ 4,971
Total number of shares repurchased	62.8	34.5
Average price paid per share	$ 207.32	$ 144.08

As of January 28, 2022, we had $19.7 billion remaining under our share repurchase program with no expiration date. For 2022, we expect to repurchase shares totaling approximately $12.0 billion, subject to market conditions.

Dividends

In the third quarter of 2021, we increased our quarterly dividend payment by 33% to $0.80 per share. Our dividend payment dates are established such that dividends are paid in the quarter immediately following the quarter in which they are declared. The following table provides additional information related to our dividend payments for 2021 and 2020:

(In millions, except per share data and percentage data)	2021	2020
Total cash dividend payments	$ 1,984	$ 1,704
Dividends paid per share	$ 2.80	$ 2.25
Dividend payout ratio	24 %	29 %

Capital Resources

We expect to continue to have access to the capital markets on both short-term and long-term bases when needed for liquidity purposes by issuing commercial paper or new long-term debt. The availability and the borrowing costs of these funds could be

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adversely affected, however, by a downgrade of our debt ratings or a deterioration of certain financial ratios. The table below reflects our debt ratings by Standard & Poor's (S&P) and Moody's as of March 21, 2022, which is disclosed to provide an enhanced understanding of our sources of liquidity and the effect of our ratings on our cost of funds. Our debt ratings have enabled, and should continue to enable, us to refinance our debt as it becomes due at favorable rates in capital markets. Our commercial paper and senior debt ratings may be subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating.

Debt Ratings	**S&P**	**Moody's**
Commercial Paper	A-2	P-2
Senior Debt	BBB+	Baa1
Outlook	**Stable**	**Stable**

There are no provisions in any agreements that would require early cash settlement of existing debt or leases as a result of a downgrade in our debt rating or a decrease in our stock price. In addition, we do not believe it will be necessary to repatriate significant cash and cash equivalents and short-term investments held in foreign affiliates to fund domestic operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated financial statements and notes to consolidated financial statements presented in this Annual Report requires us to make estimates that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosures of contingent assets and liabilities. We base these estimates on historical results and various other assumptions believed to be reasonable, all of which form the basis for making estimates concerning the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Our significant accounting policies are described in Note 1 to the consolidated financial statements included herein. We believe that the following accounting policies affect the most significant estimates and management judgments used in preparing the consolidated financial statements.

Merchandise Inventory

Description
We record an obsolete inventory reserve for the anticipated loss associated with selling inventories below cost. This reserve is based on our current knowledge with respect to inventory levels, sales trends and historical experience. During 2021, our reserve decreased approximately $14 million to $168 million as of January 28, 2022.

We also record an inventory reserve for the estimated shrinkage between physical inventories. This reserve is based primarily on actual shrink results from previous physical inventories. During 2021, the inventory shrink reserve increased approximately $49 million to $414 million as of January 28, 2022, in response to higher volumes and estimated shrinkage rates based on results from previous physical inventories.

In addition, we receive funds from vendors in the normal course of business, principally as a result of purchase volumes, sales, early payments or promotions of vendors' products. Generally, these vendor funds do not represent the reimbursement of specific, incremental and identifiable costs that we incurred to sell the vendor's product. Many of the vendor funds associated with these purchases are earned under agreements that are negotiated on an annual basis or shorter. The funds are recorded as a reduction to the cost of inventory as they are earned. As the related inventory is sold, the amounts are recorded as a reduction to cost of sales. Funds that are determined to be reimbursements of specific, incremental and identifiable costs incurred to sell vendors' products are recorded as an offset to the related expense.

Judgments and uncertainties involved in the estimate
We do not believe that our merchandise inventories are subject to significant risk of obsolescence in the near term, and we have the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns or a deterioration in product quality could result in the need for additional reserves. Likewise, changes in the estimated shrink reserve may be necessary, based on the

timing and results of physical inventories. We also apply judgment in the determination of levels of obsolete inventory and assumptions about net realizable value.

For vendor funds, we develop accrual rates based on the provisions of the agreements in place. Due to the diversity of the individual vendor agreements, we perform analyses and review historical purchase trends and volumes throughout the year, adjust accrual rates as appropriate and confirm actual amounts with select vendors to ensure the amounts earned are appropriately recorded. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met.

Effect if actual results differ from assumptions
We have not made any material changes in the methodology used to establish our inventory valuation or the related reserves for obsolete inventory or inventory shrinkage during the past three fiscal years. We believe that we have sufficient current and historical knowledge to record reasonable estimates for both of these inventory reserves. However, it is possible that actual results could differ from recorded reserves. A 10% change in either the amount of products considered obsolete or the weighted average estimated loss rate used in the calculation of our obsolete inventory reserve would have affected net earnings by approximately $13 million for 2021. A 10% change in the estimated shrinkage rate included in the calculation of our inventory shrink reserve would have affected net earnings by approximately $31 million for 2021.

We have not made any material changes in the methodology used to recognize vendor funds during the past three fiscal years. If actual results are not consistent with the assumptions and estimates used, we could be exposed to additional adjustments that could positively or negatively impact gross margin and inventory. However, substantially all receivables associated with these activities do not require subjective long-term estimates because they are collected within the following fiscal year. Adjustments to gross margin and inventory in the following fiscal year have historically not been material.

Long-Lived Asset Impairment

Description
We review the carrying amounts of locations whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. When evaluating locations for impairment, our asset group is at an individual location level, as that is the lowest level for which cash flows are identifiable. Cash flows for individual locations do not include an allocation of corporate overhead.

We evaluate locations for triggering events relating to long-lived asset impairment on a quarterly basis to determine when a location's assets may not be recoverable. For operating locations, our primary indicator that assets may not be recoverable is consistently negative cash flow for a twelve month period for those locations that have been open in the same location for a sufficient period of time to allow for meaningful analysis of ongoing operating results. Management also monitors other factors when evaluating operating locations for impairment, including individual locations' execution of their operating plans and local market conditions, including incursion, which is the opening of either other Lowe's locations or those of a direct competitor within the same market. We also consider there to be a triggering event when there is a current expectation that it is more likely than not that a given location will be closed or otherwise disposed of significantly before the end of its previously estimated useful life.

A potential impairment has occurred if projected future undiscounted cash flows expected to result from the use and eventual disposition of the location's assets are less than the carrying amount of the assets. The carrying value of a location's asset group includes inventory, property, operating and finance lease right-of-use assets and operating liabilities including inventory payables, salaries payable and operating lease liabilities. Financial and nonoperating liabilities are excluded from the carrying value of the asset group. When determining the stream of projected future cash flows associated with an individual operating location, management makes assumptions, incorporating local market conditions, about key store variables including sales growth rates, gross margin and controllable expenses, such as store payroll and operating expense, as well as asset residual values or lease rates. Operating lease payments are included in the projected future cash flows. Financing lease payments are excluded from the projected future cash flows. An impairment loss is recognized when the carrying amount of the operating location is not recoverable and exceeds its fair value.

We use an income approach to determine the fair value of our individual operating locations, which requires discounting projected future cash flows. This involves making assumptions regarding both a location's future cash flows, as described above, and an appropriate discount rate to determine the present value of those future cash flows. We discount our cash flow estimates at a rate commensurate with the risk that selected market participants would assign to the cash flows. The selected market participants represent a group of other retailers with a market footprint similar in size to ours.

We use a market approach to determine the fair value of our individual locations identified for closure. This involves making assumptions regarding the estimated selling prices or estimated lease rates by obtaining information from property brokers or appraisers in the specific markets being evaluated. The information includes comparable sales of similar assets and assumptions about demand in the market for purchase or lease of these assets.

Judgments and uncertainties involved in the estimate
Our impairment evaluations require us to apply judgment in determining whether a triggering event has occurred, including the evaluation of whether it is more likely than not that a location will be closed significantly before the end of its previously estimated useful life. Our impairment loss calculations require us to apply judgment in estimating expected future cash flows, including estimated sales, margin, and controllable expenses, assumptions about market performance for operating locations, and estimated selling prices or lease rates for locations identified for closure. We also apply judgment in estimating asset fair values, including the selection of an appropriate discount rate for fair values determined using an income approach.

Effect if actual results differ from assumptions
During fiscal years 2021 and 2020, long-lived asset impairment recorded within selling, general and administrative expenses in the consolidated statements of earnings was immaterial. We have not made any material changes in the methodology used to estimate the future cash flows of operating locations or locations identified for closure during the past three fiscal years. If the actual results are not consistent with the assumptions and judgments we have made in determining whether it is more likely than not that a location will be closed significantly before the end of its useful life or in estimating future cash flows and determining asset fair values, our actual impairment losses could vary from our estimated impairment losses. In the event that our estimates vary from actual results, we may record additional impairment losses, which could be material to our results of operations.

Self-Insurance

Description
We are self-insured for certain losses relating to workers' compensation, automobile, general and product liability, extended protection plans, and certain medical and dental claims. We have excess insurance coverage above certain retention amounts to limit exposure from single events and earnings volatility. Our self-insured retention or deductible, as applicable, is limited to $2 million per occurrence involving workers' compensation, $10 million per occurrence involving general or product liability, and $10 million per occurrence involving automobile. We do not have any excess insurance coverage for self-insured extended protection plan or medical and dental claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon our estimates of the discounted ultimate cost for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. During 2021, our self-insurance liabilities increased approximately $23 million to $1.1 billion as of January 28, 2022.

Judgments and uncertainties involved in the estimate
These estimates are subject to changes in the regulatory environment, utilized discount rate, projected exposures including payroll, sales and vehicle units, as well as the frequency, lag and severity of claims.

Effect if actual results differ from assumptions
We have not made any material changes in the methodology used to establish our self-insurance liability during the past three fiscal years. Although we believe that we have the ability to reasonably estimate losses related to claims, it is possible that actual results could differ from recorded self-insurance liabilities. A 10% change in our self-insurance liability would have affected net earnings by approximately $84 million for 2021. A 100 basis point change in our discount rate would have affected net earnings by approximately $23 million for 2021.

Item 7A - Quantitative and Qualitative Disclosures about Market Risk

In addition to the risks inherent in our operations, we are exposed to certain market risks, including changes in interest rates, commodity prices and foreign currency exchange rates.

Interest Rate Risk

We use forward starting interest rate swaps to hedge our exposure to the impact of interest rate changes in future debt issuances. The fair value of our derivative financial instruments as of January 28, 2022, was not material. Fluctuations in interest rates do not have a material impact on our financial condition and results of operations because our long-term debt is carried at amortized cost and consists primarily of fixed-rate instruments. Therefore, providing quantitative information about interest rate risk is not meaningful for our financial instruments.

Commodity Price Risk

We purchase certain commodity products that are subject to price volatility caused by factors beyond our control, which could potentially have a material impact on our financial condition and/or results of operations. We believe that the price volatility of these products is partially mitigated by our ability to adjust selling prices. The selling prices of these commodity products are influenced, in part, by the market price we pay and our competitive environment.

Foreign Currency Exchange Rate Risk

Although we have international operating entities, our exposure to foreign currency rate fluctuations is not material to our financial condition and result of operations.

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Item 8 - Financial Statements and Supplementary Data

Table of Contents

	Pag
Management’s Report on Internal Control over Financial Reporting	3
Report of Independent Registered Public Accounting Firm (PCAOB ID No. 34)	3
Consolidated Statements of Earnings	3
Consolidated Statements of Comprehensive Income	3
Consolidated Balance Sheets	3
Consolidated Statements of Shareholders’ (Deficit)/ Equity	4
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	4
Note 1: Summary of Significant Accounting Policies	4
Note 2: Revenue	4
Note 3: Fair Value Measurements	5
Note 4: Property and Accumulated Depreciation	5
Note 5: Goodwill and Intangible Assets	5
Note 6: Leases	5
Note 7: Exit Activities	5
Note 8: Debt	5
Note 9: Derivative Instruments	5
Note 10: Shareholders’ (Deficit)/Equity	5
Note 11: Share-Based Payments	5
Note 12: Employee Retirement Plans	6
Note 13: Income Taxes	6
Note 14: Earnings Per Share	6
Note 15: Commitments and Contingencies	6
Note 16: Related Parties	6
Note 17: Other Information	6

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Lowe's Companies, Inc. and its subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting (Internal Control) as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Our Internal Control was designed to provide reasonable assurance to our management and the Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the reliability of financial reporting and financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness may vary over time.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our Internal Control as of January 28, 2022. In evaluating our Internal Control, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013). Based on our management's assessment, we have concluded that, as of January 28, 2022, our Internal Control is effective.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the financial statements contained in this Annual Report, was engaged to audit our Internal Control. Their report appears on page 37.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Lowe’s Companies, Inc. and subsidiaries (the “Company”) as of January 28, 2022 and January 29, 2021, the related consolidated statements of earnings, comprehensive income, shareholders’ (deficit)/equity, and cash flows, for each of the three fiscal years in the period ended January 28, 2022, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 28, 2022 and January 29, 2021, and the results of its operations and its cash flows for each of the three fiscal years in the period ended January 28, 2022, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 28, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 21, 2022, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Merchandise Inventory – Vendor Funds – Refer to Note 1 to the financial statements

Critical Audit Matter Description

The Company receives funds from its vendors in the normal course of business, principally as a result of purchase volumes and sales. In the fiscal year ended January 28, 2022, the Company purchased inventory from a significant number of vendors. Many of the vendor funds associated with these purchases are earned under agreements that are negotiated on an annual basis or shorter. The funds are recorded as a reduction to the cost of inventory as they are earned. As the related inventory is sold, the amounts are recorded as a reduction to cost of sales.

We identified vendor funds as a critical audit matter because of the volume and varying terms of the individual vendor agreements. This required an increased extent of effort when performing audit procedures to evaluate whether the vendor funds were recorded in accordance with the terms of the vendor agreements.

How the Critical Audit Matter Was Addressed in the Audit

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Our audit procedures related to whether the vendor funds were recorded in accordance with the terms of the vendor agreements included the following, among others:

- We tested the effectiveness of controls over vendor funds, including management’s controls over the accrual and recording of vendor funds as a reduction to the cost of inventory or cost of sales in accordance with the terms of the vendor agreements.
- We selected a sample of vendor funds and recalculated the amount earned using the terms of the vendor agreement, including the amount recorded as a reduction to the cost of inventory and/or the amount recorded as a reduction to cost of sales.
- We selected a sample of vendor funds and confirmed the amount earned and terms of the agreement directly with the vendor.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
March 21, 2022

We have served as the Company's auditor since 1962.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Lowe's Companies, Inc. and subsidiaries (the "Company") as of January 28, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the fiscal year ended January 28, 2022, of the Company and our report dated March 21, 2022, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
March 21, 2022

Lowe's Companies, Inc.
Consolidated Statements of Earnings
(In millions, except per share and percentage data)

	Fiscal Years Ended								
	January 28, 2022			January 29, 2021			January 31, 2020		
Current Earnings		**Amount**	**% Sales**		**Amount**	**% Sales**		**Amount**	**% Sales**
Net sales	$	**96,250**	**100.00 %**	$	**89,597**	**100.00 %**	$	**72,148**	**100.00 %**
Cost of sales		64,194	66.70		60,025	66.99		49,205	68.20
Gross margin		**32,056**	**33.30**		**29,572**	**33.01**		**22,943**	**31.80**
Expenses:									
Selling, general and administrative		18,301	19.01		18,526	20.68		15,367	21.30
Depreciation and amortization		1,662	1.73		1,399	1.56		1,262	1.75
Operating income		**12,093**	**12.56**		**9,647**	**10.77**		**6,314**	**8.75**
Interest – net		885	0.92		848	0.95		691	0.96
Loss on extinguishment of debt		—	—		1,060	1.18		—	—
Pre-tax earnings		**11,208**	**11.64**		**7,739**	**8.64**		**5,623**	**7.79**
Income tax provision		2,766	2.87		1,904	2.13		1,342	1.86
Net earnings	$	**8,442**	**8.77 %**	$	**5,835**	**6.51 %**	$	**4,281**	**5.93 %**
Basic earnings per common share	$	**12.07**		$	**7.77**		$	**5.49**	
Diluted earnings per common share	$	**12.04**		$	**7.75**		$	**5.49**	

Lowe's Companies, Inc.
Consolidated Statements of Comprehensive Income
(In millions, except percentage data)

	Fiscal Years Ended								
	January 28, 2022			January 29, 2021			January 31, 2020		
		Amount	**% Sales**		**Amount**	**% Sales**		**Amount**	**% Sales**
Net earnings	$	**8,442**	**8.77 %**	$	**5,835**	**6.51 %**	$	**4,281**	**5.93 %**
Foreign currency translation adjustments – net of tax		(4)	—		78	0.09		94	0.13
Cash flow hedges – net of tax		109	0.11		(79)	(0.09)		(22)	(0.03)
Other		(5)	(0.01)		1	—		1	—
Other comprehensive income		**100**	**0.10**		**—**	**—**		**73**	**0.10**
Comprehensive income	$	**8,542**	**8.87 %**	$	**5,835**	**6.51 %**	$	**4,354**	**6.03 %**

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc.
Consolidated Balance Sheets
(In millions, except par value)

	January 28, 2022	January 29, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 1,133	$ 4,690
Short-term investments	271	506
Merchandise inventory – net	17,605	16,193
Other current assets	1,051	937
Total current assets	**20,060**	**22,326**
Property, less accumulated depreciation	19,071	19,155
Operating lease right-of-use assets	4,108	3,832
Long-term investments	199	200
Deferred income taxes – net	164	340
Other assets	1,038	882
Total assets	**$ 44,640**	**$ 46,735**
Liabilities and shareholders' (deficit)/equity		
Current liabilities:		
Current maturities of long-term debt	$ 868	$ 1,112
Current operating lease liabilities	636	541
Accounts payable	11,354	10,884
Accrued compensation and employee benefits	1,561	1,350
Deferred revenue	1,914	1,608
Other current liabilities	3,335	3,235
Total current liabilities	**19,668**	**18,730**
Long-term debt, excluding current maturities	23,859	20,668
Noncurrent operating lease liabilities	4,021	3,890
Deferred revenue – Lowe's protection plans	1,127	1,019
Other liabilities	781	991
Total liabilities	**49,456**	**45,298**
Commitments and contingencies		
Shareholders' (deficit)/equity:		
Preferred stock – $5 par value: Authorized – 5.0 million shares; Issued and outstanding – none	—	—
Common stock – $0.50 par value: Authorized – 5.6 billion shares; Issued and outstanding – 670 million and 731 million, respectively	335	366
Capital in excess of par value	—	90
(Accumulated deficit)/retained earnings	(5,115)	1,117
Accumulated other comprehensive loss	(36)	(136)
Total shareholders' (deficit)/equity	**(4,816)**	**1,437**
Total liabilities and shareholders' (deficit)/equity	**$ 44,640**	**$ 46,735**

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc.
Consolidated Statements of Shareholders' (Deficit)/Equity
(In millions, except per share data)

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total
Balance February 1, 2019	**801**	**$ 401**	**$ —**	**$ 3,452**	**$ (209)**	**$ 3,644**
Cumulative effect of accounting change	—	—	—	(263)	—	(263)
Net earnings	—	—	—	4,281	—	4,281
Other comprehensive income	—	—	—	—	73	73
Cash dividends declared, $2.13 per share	—	—	—	(1,653)	—	(1,653)
Share-based payment expense	—	—	98	—	—	98
Repurchases of common stock	(41)	(21)	(214)	(4,090)	—	(4,325)
Issuance of common stock under share-based payment plans	3	1	116	—	—	117
Balance January 31, 2020	**763**	**$ 381**	**$ —**	**$ 1,727**	**$ (136)**	**$ 1,972**
Net earnings	—	—	—	5,835	—	5,835
Cash dividends declared, $2.30 per share	—	—	—	(1,724)	—	(1,724)
Share-based payment expense	—	—	155	—	—	155
Repurchases of common stock	(34)	(16)	(214)	(4,721)	—	(4,951)
Issuance of common stock under share-based payment plans	2	1	149	—	—	150
Balance January 29, 2021	**731**	**$ 366**	**$ 90**	**$ 1,117**	**$ (136)**	**$ 1,437**
Net earnings	—	—	—	8,442	—	8,442
Other comprehensive income	—	—	—	—	100	100
Cash dividends declared, $3.00 per share	—	—	—	(2,081)	—	(2,081)
Share-based payment expense	—	—	228	—	—	228
Repurchases of common stock	(63)	(32)	(449)	(12,593)	—	(13,074)
Issuance of common stock under share-based payment plans	2	1	131	—	—	132
Balance January 28, 2022	**670**	**$ 335**	**$ —**	**$ (5,115)**	**$ (36)**	**$ (4,816)**

See accompanying notes to consolidated financial statements.

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Lowe's Companies, Inc.
Consolidated Statements of Cash Flows
(In millions)

	Fiscal Years Ended		
	January 28, 2022	**January 29, 2021**	**January 31, 2020**
Cash flows from operating activities:			
Net earnings	$ 8,442	$ 5,835	$ 4,281
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	1,882	1,594	1,410
Noncash lease expense	517	479	468
Deferred income taxes	135	(108)	177
Loss on property and other assets – net	34	139	117
Loss on extinguishment of debt	—	1,060	—
Share-based payment expense	230	155	98
Changes in operating assets and liabilities:			
Merchandise inventory – net	(1,413)	(2,967)	(600)
Other operating assets	(23)	326	(364)
Accounts payable	466	3,211	(637)
Deferred revenue	413	512	(15)
Other operating liabilities	(570)	813	(639)
Net cash provided by operating activities	**10,113**	**11,049**	**4,296**
Cash flows from investing activities:			
Purchases of investments	(3,065)	(3,094)	(743)
Proceeds from sale/maturity of investments	3,293	2,926	695
Capital expenditures	(1,853)	(1,791)	(1,484)
Proceeds from sale of property and other long-term assets	113	90	163
Other – net	(134)	(25)	—
Net cash used in investing activities	**(1,646)**	**(1,894)**	**(1,369)**
Cash flows from financing activities:			
Net change in commercial paper	—	(941)	220
Net proceeds from issuance of debt	4,972	7,929	3,972
Repayment of debt	(2,118)	(5,618)	(1,113)
Proceeds from issuance of common stock under share-based payment plans	132	152	118
Cash dividend payments	(1,984)	(1,704)	(1,618)
Repurchases of common stock	(13,012)	(4,971)	(4,313)
Other – net	(6)	(38)	(1)
Net cash used in financing activities	**(12,016)**	**(5,191)**	**(2,735)**
Effect of exchange rate changes on cash	**(8)**	**10**	**1**
Net (decrease)/increase in cash and cash equivalents, including cash classified within current assets held for sale	(3,557)	3,974	193
Less: Net decrease in cash classified within current assets held for sale	—	—	12
Net (decrease)/increase in cash and cash equivalents	(3,557)	3,974	205
Cash and cash equivalents, beginning of year	4,690	716	511
Cash and cash equivalents, end of year	**$ 1,133**	**$ 4,690**	**$ 716**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 28, 2022, JANUARY 29, 2021, AND JANUARY 31, 2020

NOTE 1: Summary of Significant Accounting Policies

Lowe’s Companies, Inc. and subsidiaries (the Company) is the world’s second-largest home improvement retailer and operated 1,971 stores in the United States and Canada at January 28, 2022. Below are those accounting policies considered by the Company to be significant.

Fiscal Year - The Company’s fiscal year ends on the Friday nearest the end of January. Each of the fiscal years presented contained 52 weeks. All references herein for the years 2021, 2020, and 2019 represent the fiscal years ended January 28, 2022, January 29, 2021, and January 31, 2020, respectively.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned or controlled operating subsidiaries. All intercompany accounts and transactions have been eliminated.

Impacts of COVID-19 - On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a pandemic and recommended containment and mitigation measures worldwide. In response to the COVID-19 pandemic, restrictions were put in place in an attempt to control the spread of the disease. At the onset of the pandemic, the Company implemented a number of measures to facilitate a safer store environment and to provide support for its associates, customers and community. Beginning in fiscal 2020, the Company expanded associate benefits in response to COVID-19 to provide additional paid time off, special payments to hourly associates, temporary wage increases and other benefits, which continued through 2021. The Company also continued enhanced cleaning protocols. These actions resulted in $162 million and $1.2 billion of expense included in selling, general and administrative (SG&A) expense in the consolidated statements of earnings for the fiscal years ended January 28, 2022 and January 29, 2021, respectively.

In addition, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), which was enacted on March 27, 2020, included measures to assist companies in response to the COVID-19 pandemic. In accordance with the CARES Act, the Company deferred the payments of qualifying employer payroll taxes which were required to be paid over two years, with half due by December 31, 2021, and the other half due by December 31, 2022. These amounts are included in cash flows from other operating liabilities in the accompanying consolidated statements of cash flows. The following table presents the qualifying employer payroll taxes deferred in accordance with the CARES Act along with the location in the consolidated balance sheets:

(In millions)	January 28, 2022	January 29, 2021
Accrued compensation and employee benefits	$ 240	$ 241
Other liabilities	—	240
Total deferred qualified employer payroll taxes	**$ 240**	**$ 481**

Foreign Currency - The functional currencies of the Company’s international subsidiaries are generally the local currencies of the countries in which the subsidiaries are located. Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations and cash flows are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is included as a component of shareholders’ (deficit)/equity in accumulated other comprehensive loss. Gains and losses from foreign currency transactions are included in SG&A expense.

Use of Estimates - The preparation of the Company’s financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosures of contingent assets and liabilities. The Company bases these estimates on historical results and various other assumptions believed to be reasonable, all of which form the basis for making estimates concerning the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased. Cash and cash equivalents are carried at amortized cost on the consolidated balance sheets. The majority of payments due from financial institutions for the settlement of credit card and debit card transactions process within two business days and are, therefore, classified as cash and cash equivalents.

Investments - Investments generally consist of agency securities, commercial paper, corporate debt securities, governmental securities, and money market funds, which are classified as available-for-sale. Available-for-sale debt securities are recorded at fair value, and unrealized gains and losses are recorded, net of tax, as a component of accumulated other comprehensive loss.

The proceeds from sales of available-for-sale debt securities were $308 million, $42 million, and $121 million for 2021, 2020, and 2019, respectively. Gross realized gains and losses on the sale of available-for-sale debt securities were not significant for any of the periods presented.

Investments with a stated maturity date of one year or less from the balance sheet date or that are expected to be used in current operations are classified as short-term investments. All other investments are classified as long-term. Investments classified as long-term at January 28, 2022, will mature in one to three years, based on stated maturity dates.

The Company classifies as investments restricted balances primarily pledged as collateral for the Company's extended protection plan program. Restricted balances included in short-term investments were $271 million at January 28, 2022, and $506 million at January 29, 2021. Restricted balances included in long-term investments were $199 million at January 28, 2022, and $200 million at January 29, 2021.

Merchandise Inventory - The majority of the Company's inventory is stated at the lower of cost and net realizable value using the first-in, first-out method of inventory accounting. Inventory for certain subsidiaries representing approximately 7% of the consolidated inventory balances as of January 28, 2022 and January 29, 2021, are stated at lower of cost and net realizable value using the weighted average cost method. The cost of inventory includes certain costs associated with the preparation of inventory for resale, including distribution center costs, and is net of vendor funds.

The Company records an inventory reserve for the anticipated loss associated with selling inventories below cost. This reserve is based on management's current knowledge with respect to inventory levels, sales trends, and historical experience. Management does not believe the Company's merchandise inventories are subject to significant risk of obsolescence in the near term, and management has the ability to adjust purchasing patterns based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns could result in the need for additional reserves. The Company also records an inventory reserve for the estimated shrinkage between physical inventories. This reserve is based primarily on actual shrink results from previous physical inventories. Changes in the estimated shrink reserve are made based on the timing and results of physical inventories.

The Company receives funds from vendors in the normal course of business, principally as a result of purchase volumes, sales, early payments, or promotions of vendors' products. Generally, these vendor funds do not represent the reimbursement of specific, incremental, and identifiable costs incurred by the Company to sell the vendor's product. Therefore, the Company treats these funds as a reduction in the cost of inventory and are recognized as a reduction of cost of sales when the inventory is sold. Funds that are determined to be reimbursements of specific, incremental, and identifiable costs incurred to sell vendors' products are recorded as an offset to the related expense. The Company develops accrual rates for vendor funds based on the provisions of the agreements in place. Due to the diversity of the individual vendor agreements, the Company performs analyses and reviews historical trends throughout the year and confirms actual amounts with select vendors to ensure the amounts earned are appropriately recorded. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected annual purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met.

Derivative Financial Instruments - The Company is exposed to the impact of changes in foreign currency exchange rates, benchmark interest rates, and the prices of commodities used in the normal course of business. The Company occasionally utilizes derivative financial instruments to manage certain business risks. All derivative financial instruments are recognized at their fair values as either assets or liabilities at the balance sheet date and reported on a gross basis.

The Company held forward interest rate swap agreements to hedge its exposure to changes in benchmark interest rates on forecasted debt issuances as of January 28, 2022 and January 29, 2021. The cash flows related to forward interest rate swap agreements are included within operating activities in the consolidated statements of cash flows. The Company accounts for these contracts as cash flow hedges, thus the effective portion of gains and losses resulting from changes in fair value are recognized in other comprehensive income, net of tax effects, in the consolidated statements of comprehensive income and are recognized in earnings when the underlying hedged transaction impacts the consolidated statements of earnings.

The Company held fixed-to-floating interest rate swap agreements as fair value hedges on certain debt as of January 28, 2022. The Company evaluates the effectiveness of the fair value hedges using the shortcut method of accounting under which the hedges are assumed to be perfectly effective. Thus, the change in fair value of the derivative instruments offsets the change in fair value on the hedged debt, and there is no net impact in the consolidated statements of earnings from the fair value of the derivatives.

To hedge the economic risk of changes in value of the October 2020 cash tender offers prior to its pricing date, the Company entered into reverse treasury lock derivative contracts which were not designated as hedging instruments. The cash flows related to these contracts are included within financing activities in the consolidated statements of cash flows.

Credit Programs and Sale of Business Accounts Receivable - The Company has branded and private label proprietary credit cards which generate sales that are not reflected in receivables. Under an agreement with Synchrony Bank (Synchrony), credit is extended directly to customers by Synchrony. All credit program-related services are performed and controlled directly by Synchrony. The Company has the option, but no obligation, to purchase the receivables at the end of the agreement.

The Company also has an agreement with Synchrony under which Synchrony purchases at face value commercial business accounts receivable originated by the Company and services these accounts. The Company primarily accounts for these transfers as sales of the accounts receivable. When the Company transfers its commercial business accounts receivable, it retains certain interests in those receivables, including the funding of a loss reserve and its obligation related to Synchrony's ongoing servicing of the receivables sold. Any gain or loss on the sale is determined based on the previous carrying amounts of the transferred assets allocated at fair value between the receivables sold and the interests retained. Fair value is based on the present value of expected future cash flows, taking into account the key assumptions of anticipated credit losses, payment rates, late fee rates, Synchrony's servicing costs, and the discount rate commensurate with the uncertainty involved. Due to the short-term nature of the receivables sold, changes to the key assumptions would not materially impact the recorded gain or loss on the sales of receivables or the fair value of the retained interests in the receivables.

Total commercial business accounts receivable sold to Synchrony were $4.3 billion in 2021, $3.3 billion in 2020, and $3.2 billion in 2019. The Company recognized losses of $50 million in 2021, $54 million in 2020, and $41 million in 2019 on these receivable sales, which primarily relates to servicing costs that are remitted to Synchrony monthly.

Property and Depreciation - Property is recorded at cost. Costs associated with major additions are capitalized and depreciated. Capital assets are expected to yield future benefits and have original useful lives which exceed one year. The total cost of a capital asset generally includes all applicable sales taxes, delivery costs, installation costs, and other appropriate costs incurred by the Company, including interest in the case of self-constructed assets. Upon disposal, the cost of properties and related accumulated depreciation is removed from the accounts, with gains and losses reflected in SG&A expense in the consolidated statements of earnings.

Property consists of land, buildings and building improvements, equipment, finance lease assets, and construction in progress. Buildings and building improvements includes owned buildings, as well as buildings under finance lease and leasehold improvements. Equipment primarily includes store racking and displays, computer hardware and software, forklifts, vehicles, finance lease equipment, and other store equipment. In addition, excess properties held for use are included within land and buildings.

Depreciation is recognized over the estimated useful lives of the depreciable assets. Assets are depreciated using the straight-line method. Leasehold improvements and finance lease assets are depreciated and amortized, respectively, over the shorter of their estimated useful lives or the term of the related lease. The amortization of these assets is included in depreciation and amortization expense in the consolidated statements of earnings.

Long-Lived Asset Impairment - The carrying amounts of long-lived assets are reviewed whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. A potential impairment has occurred for long-lived assets held-for-use if projected future undiscounted cash flows expected to result from the use and eventual disposition of the assets are less than the carrying amounts of the assets. The carrying value of a location's asset group includes inventory, property, operating and finance lease right-of-use assets, and operating liabilities, including inventory payables, salaries payable and operating lease liabilities. Financial and non-operating liabilities are excluded from the carrying value of the asset group. An impairment loss is recorded for long-lived assets held-for-use when the carrying amount of the asset is not recoverable and exceeds its fair value. Impairment losses are included in SG&A expense in the consolidated statements of earnings.

Excess properties that are expected to be sold within the next twelve months and meet the other relevant held-for-sale criteria are classified as long-lived assets held-for-sale. Excess properties consist primarily of retail outparcels and property associated with relocated or closed locations. An impairment loss is recorded for long-lived assets held-for-sale when the carrying amount of the asset exceeds its fair value less cost to sell. A long-lived asset is not depreciated while it is classified as held-for-sale.

For long-lived assets to be abandoned, the Company considers the asset to be disposed of when it ceases to be used. Until it ceases to be used, the Company continues to classify the asset as held-for-use and tests for potential impairment accordingly. If the Company commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, its depreciable life is evaluated.

Goodwill - Goodwill is the excess of the purchase price over the fair value of identifiable assets acquired, less liabilities assumed, in a business combination. The Company reviews goodwill for impairment at the reporting unit level, which is the operating segment level or one level below the operating segment level. Goodwill is not amortized but is evaluated for impairment at least annually on the first day of the fourth quarter or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount may not be recoverable. The evaluation begins with a qualitative assessment to determine whether a quantitative impairment test is necessary. If, after assessing qualitative factors, we determine it is more likely than not that the fair value of the reporting unit is less than the carrying amount, then the quantitative goodwill impairment test is performed.

The quantitative goodwill impairment test used to identify potential impairment compares the fair value of a reporting unit with its carrying amount, including goodwill. Fair value represents the price a market participant would be willing to pay in a potential sale of the reporting unit and is based on a combination of an income approach, based on discounted future cash flows, and a market approach, based on market multiples applied to free cash flow. If the fair value exceeds carrying value, then no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Any impairment identified is included within SG&A expense in the consolidated statements of earnings. The income tax effect from any tax deductible goodwill on the carrying amount of the reporting unit, if applicable, is considered in determining the goodwill impairment loss.

A reporting unit is an operating segment or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. During fiscal 2021, goodwill was allocated to the U.S. Home Improvement reporting unit. In fiscal 2021, we completed our annual qualitative assessment of the recoverability of goodwill for the U.S. Home Improvement reporting unit and concluded that the fair value of the reporting unit significantly exceeded its carrying value.

The changes in the carrying amount of goodwill for 2021, 2020, and 2019 were as follows:

	Years Ended		
(In millions)	**January 28, 2022**	**January 29, 2021**	**January 31, 2020**
Goodwill, balance at beginning of year	**$ 311**	**$ 303**	**$ 303**
Acquisitions	—	8	—
Goodwill, balance at end of year	**$ 311**	**$ 311**	**$ 303**

Gross carrying amounts and cumulative goodwill impairment losses are as follows:

	January 28, 2022		January 29, 2021	
(In millions)	**Gross Carrying Amount**	**Cumulative Impairment**	**Gross Carrying Amount**	**Cumulative Impairment**
Goodwill	$ 1,310	$ (999)	$ 1,310	$ (999)

Other Intangible Assets - Intangible assets with indefinite lives are evaluated for impairment on the first day of the fourth quarter or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount may not be recoverable. The cost of definite-lived intangible assets is amortized over their estimated useful lives, which range up to 20 years. Intangible assets are recorded within other assets on the consolidated balance sheets.

Leases - The Company leases certain retail stores, warehouses, distribution centers, office space, land and equipment under finance and operating leases. Lease commencement occurs on the date the Company takes possession or control of the property or equipment. Original terms for facility-related leases are generally between five and 20 years. These leases generally contain provisions for four to six renewal options of five years each. Original terms for equipment-related leases, primarily material handling equipment and vehicles, are generally between one and seven years. Some of the Company’s leases also include rental escalation clauses and/or termination provisions. Renewal options and termination options are included in the determination of lease payments when management determines the options are reasonably certain of exercise, considering financial performance, strategic importance and/or invested capital. Leases with an original term of twelve months or less are not recognized on the Company's balance sheet, and the lease expense related to those short-term leases is recognized over the lease term. The Company does not account for lease and non-lease (e.g. common area maintenance) components of contracts separately for any underlying asset class.

If readily determinable, the rate implicit in the lease is used to discount lease payments to present value; however, substantially all of the Company's leases do not provide a readily determinable implicit rate. When the implicit rate is not determinable, the Company's estimated incremental borrowing rate is utilized, determined on a collateralized basis, to discount lease payments based on information available at lease commencement.

The Company's real estate leases typically require payment of common area maintenance and real estate taxes which represent the majority of variable lease costs. Certain lease agreements also provide for variable rental payments based on sales performance in excess of specified minimums, usage measures, or changes in the consumer price index. Variable rent payments based on future performance, usage, or changes in indices were not significant for any of the periods presented. Variable lease costs are excluded from the present value of lease obligations.

The Company's lease agreements do not contain any material restrictions, covenants, or any material residual value guarantees. The Company subleases certain properties that are not used in its operations. Sublease income was not significant for any of the periods presented.

Accounts Payable - The Company has agreements with third parties to provide accounts payable tracking systems which facilitate participating suppliers' ability to finance payment obligations from the Company with designated third-party financial institutions. Participating suppliers may, at their sole discretion, make offers to finance one or more payment obligations of the Company prior to their scheduled due dates at a discounted price to participating financial institutions. The Company's goal in entering into these arrangements is to capture overall supply chain savings in the form of pricing, payment terms, or vendor funding, created by facilitating suppliers' ability to finance payment obligations at more favorable discount rates, while providing them with greater working capital flexibility.

The Company's obligations to its suppliers, including amounts due and scheduled payment dates, are not impacted by suppliers' decisions to finance amounts under these arrangements. However, the Company's right to offset balances due from suppliers against payment obligations is restricted by these arrangements for those payment obligations that have been financed by suppliers. The Company's outstanding payment obligations with participating suppliers were $3.0 billion as of January 28, 2022, and $2.5 billion as of January 29, 2021, and are included in accounts payable on the consolidated balance sheets, and participating suppliers financed $2.3 billion and $1.7 billion, respectively, of those payment obligations to participating financial institutions. Total payment obligations that were placed and settled on the accounts payable tracking systems were $11.0 billion and $9.7 billion for each of the years ended January 28, 2022 and January 29, 2021, respectively.

Other Current Liabilities - Other current liabilities on the consolidated balance sheets consist of:

(In millions)		**January 28, 2022**		**January 29, 2021**
Accrued dividends	$	537	$	440
Self-insurance liabilities		440		435
Accrued interest		275		250
Sales return reserve		245		252
Sales tax liabilities		228		256
Income taxes payable		128		168
Accrued property taxes		124		120
Other		1,358		1,314
Total	**$**	**3,335**	**$**	**3,235**

Self-Insurance - The Company is self-insured for certain losses relating to workers' compensation, automobile, property, and general and product liability claims. The Company has excess insurance coverage above certain retention amounts to limit exposure from these claims. The Company is also self-insured for certain losses relating to extended protection plans, as well as medical and dental claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon management's estimates of the discounted ultimate cost for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. Although management believes it has the ability to reasonably estimate losses

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related to claims, it is possible that actual results could differ from recorded self-insurance liabilities. Total self-insurance liabilities, including the current and non-current portions, were $1.1 billion at January 28, 2022 and January 29, 2021.

The Company provides surety bonds issued by insurance companies to secure payment of workers' compensation liabilities as required in certain states where the Company is self-insured. Outstanding surety bonds relating to self-insurance were $270 million at January 28, 2022 and January 29, 2021.

Income Taxes - The Company establishes deferred income tax assets and liabilities for temporary differences between the tax and financial accounting bases of assets and liabilities. The tax effects of such differences are reflected in the consolidated balance sheets at the enacted tax rates expected to be in effect when the differences reverse. A valuation allowance is recorded to reduce the carrying amount of deferred tax assets if it is more likely than not that all or a portion of the asset will not be realized. The tax balances and income tax expense recognized by the Company are based on management's interpretation of the tax statutes of multiple jurisdictions.

The Company establishes a liability for tax positions for which there is uncertainty as to whether or not the position will be ultimately sustained. The Company includes interest related to tax issues as part of net interest on the consolidated statements of earnings. The Company records any applicable penalties related to tax issues within the income tax provision.

Shareholders' (Deficit)/Equity - The Company has a share repurchase program that is executed through purchases made from time to time either in the open market or through private market transactions. Shares purchased under the repurchase program are returned to authorized and unissued status. Any excess of cost over par value is charged to additional paid-in capital to the extent that a balance is present. Once additional paid-in capital is fully depleted, remaining excess of cost over par value is charged to (accumulated deficit)/retained earnings.

Revenue Recognition - The Company recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. A description of the Company's principle revenue generating activities is as follows:

- *Products* - Revenue from products primarily relates to in-store and online merchandise purchases, which are recognized at the point in time when the customer obtains control of the merchandise. This occurs at the time of in-store purchase or delivery of the product to the customer. A provision for anticipated merchandise returns is provided through a reduction of sales and cost of sales in the period that the related sales are recorded. The merchandise return reserve is presented on a gross basis, with a separate asset and liability included in the consolidated balance sheets.

- *Services* - Revenues from services primarily relate to professional installation services the Company provides through subcontractors related to merchandise purchased by a customer. In certain instances, installation services include materials provided by the subcontractor, and both product and installation are included in service revenue. The Company recognizes revenue associated with services as they are rendered, and the majority of services are completed within one week from initiation.

Retail deferred revenue consists of amounts received for which customers have not yet taken possession of the merchandise or for which installation has not yet been completed. Deferred revenue is recognized in sales either at a point in time when the customer obtains control of merchandise through pickup or delivery, or over time as services are provided to the customer. The majority of revenue for goods and services is recognized in the quarter following revenue deferral. In addition, the Company defers revenues from stored-value cards, which include gift cards and returned merchandise credits, and recognizes revenue into sales when the cards are redeemed.

The Company also defers revenues for its separately-priced long-term protection plan contracts (Lowe's protection plans), which is a Lowe's-branded program for which the Company is ultimately self-insured. The Company recognizes revenue from Lowe's protection plan sales on a straight-line basis over the respective contract term. Expenses for claims are recognized in cost of sales when incurred. Incremental direct acquisition costs associated with the sale of Lowe's protection plans for contracts greater than one year are also deferred and recognized as expense on a straight-line basis over the respective contract term. Lowe's protection plan contract terms primarily range from one to five years from the date of purchase or the end of the manufacturer’s warranty, as applicable.

Cost of Sales and Selling, General and Administrative Expenses - The following lists the primary costs classified in each major expense category:

Cost of Sales	Selling, General and Administrative
▪ Total cost of products sold, including: - Purchase costs, net of vendor funds; - Freight expenses associated with moving merchandise inventories from vendors to selling locations; - Costs associated with operating the Company's distribution network, including payroll and benefit costs and occupancy costs; - Depreciation of assets associated with the Company's distribution network; ▪ Costs of installation services provided; ▪ Costs associated with shipping and handling to customers, as well as directly from vendors to customers by third parties; ▪ Depreciation of assets used in delivering product to customers; ▪ Costs associated with inventory shrinkage and obsolescence; ▪ Costs of services performed under the extended protection plan.	▪ Payroll and benefit costs for retail and corporate employees; ▪ Occupancy costs of retail and corporate facilities; ▪ Advertising; ▪ Store environment costs; ▪ Tender costs, including bank charges, costs associated with credit card interchange fees; ▪ Costs associated with self-insured plans, and premium costs for stop-loss coverage and fully insured plans; ▪ Long-lived asset impairment losses, gains/losses on disposal of assets, and exit costs; ▪ Other administrative costs, such as supplies, and travel and entertainment.

Advertising - Costs associated with advertising are charged to expense as incurred. Advertising expenses were $877 million, $798 million, and $871 million in 2021, 2020, and 2019, respectively.

Comprehensive Income - The Company reports comprehensive income in its consolidated statements of comprehensive income and consolidated statements of shareholders' (deficit)/equity. Comprehensive income represents changes in shareholders' (deficit)/equity from non-owner sources and is comprised of net earnings adjusted primarily for foreign currency translation adjustments and cash flow hedge derivative contracts. Net foreign currency translation losses, net of tax, classified in accumulated other comprehensive loss were $41 million, $37 million, and $115 million at January 28, 2022, January 29, 2021, and January 31, 2020, respectively. Net cash flow hedge (gains)/losses, net of tax, classified in accumulated other comprehensive loss were ($6) million, $103 million, and $24 million at January 28, 2022, January 29, 2021, and January 31, 2020, respectively.

Segment Information - The Company's home improvement retail operations represent a single reportable segment. Key operating decisions are made at the Company level in order to maintain a consistent retail customer experience. The Company's home improvement retail and hardware stores, in addition to online selling channels, sell similar products and services, use similar processes to sell those products and services, and sell their products and services to similar classes of customers. In addition, the Company's operations exhibit similar long-term economic characteristics. The amounts of long-lived assets and net sales outside of the U.S. were approximately 7.2% and 6.1%, respectively, at January 28, 2022. The amounts of long-lived assets and net sales outside of the U.S. were approximately 7.5% and 5.9%, respectively, at January 29, 2021. The amounts of long-lived assets and net sales outside of the U.S. were approximately 7.7% and 6.9%, respectively, at January 31, 2020.

Accounting Pronouncements Not Yet Adopted - Recent accounting pronouncements pending adoption not discussed in this Form 10-K are either not applicable to the Company or are not expected to have a material impact on the Company.

NOTE 2: Revenue

Net sales consists primarily of revenue, net of sales tax, associated with contracts with customers for the sale of goods and services in amounts that reflect consideration the Company is entitled to in exchange for those goods and services.

The following table presents the Company's sources of revenue:

	Years Ended		
(In millions)	January 28, 2022	January 29, 2021	January 31, 2020
Products	$ 92,415	$ 86,046	$ 68,377
Services	2,304	1,949	2,112
Other	1,531	1,602	1,659
Net sales	**$ 96,250**	**$ 89,597**	**$ 72,148**

The balances and classification within the consolidated balance sheets for anticipated sales returns and the associated right of return assets are as follows:

(In millions)	**Classification**	January 28, 2022	January 29, 2021
Anticipated sales returns	Other current liabilities	$ 245	$ 252
Right of return assets	Other current assets	151	164

Deferred revenue - retail and stored-value cards

Deferred revenue for retail and stored-value cards are as follows:

(In millions)	January 28, 2022	January 29, 2021
Retail deferred revenue	$ 1,285	$ 1,046
Stored-value cards deferred revenue	629	562
Deferred revenue	**$ 1,914**	**$ 1,608**

Deferred revenue - Lowe's protection plans

Deferred revenue associated with Lowe's protection plans is as follows:

(In millions)	January 28, 2022	January 29, 2021
Deferred revenue - Lowe's protection plans	$ 1,127	$ 1,019

Lowe's protection plan sales previously recorded as deferred revenue and claim expenses incurred are as follows:

	Years Ended		
(In millions)	January 28, 2022	January 29, 2021	January 31, 2020
Lowe's protection plan deferred revenue recognized into sales	$ 488	$ 430	$ 408
Lowe's protection plan claim expenses	178	158	184

Disaggregation of Revenues

The following table presents the Company's net sales disaggregated by merchandise division:

	Years Ended					
	January 28, 2022		January 29, 2021		January 31, 2020	
(In millions)	Total Sales	%	Total Sales	%	Total Sales	%
Home Décor [1]	$ 34,025	35.3 %	$ 31,536	35.2 %	$ 26,198	36.3 %
Building Products [2]	31,151	32.4	28,218	31.5	22,524	31.2
Hardlines [3]	28,571	29.7	27,877	31.1	21,438	29.7
Other	2,503	2.6	1,966	2.2	1,988	2.8
Total	**$ 96,250**	**100.0 %**	**$ 89,597**	**100.0 %**	**$ 72,148**	**100.0 %**

Note: Merchandise division net sales for prior periods have been reclassified to conform to the current year presentation.

[1] *Home Décor includes the following product categories: Appliances, Décor, Flooring, Kitchens & Bath, and Paint*

[2] *Building Products includes the following product categories: Building Materials, Electrical, Lighting, Lumber, Millwork, and Rough Plumbing*

[3] *Hardlines includes the following product categories: Hardware, Lawn & Garden, Seasonal & Outdoor Living, and Tools*

The following table presents the Company's net sales disaggregated by geographical area:

	Years Ended		
(In millions)	January 28, 2022	January 29, 2021	January 31, 2020
United States	$ 90,348	$ 84,303	$ 67,147
International	5,902	5,294	5,001
Net Sales	**$ 96,250**	**$ 89,597**	**$ 72,148**

NOTE 3: Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance for fair value measurements establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

- Level 1 **-** inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities
- Level 2 **-** inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
- Level 3 **-** inputs to the valuation techniques that are unobservable for the assets or liabilities

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The following table presents the Company's financial assets and financial liabilities measured at fair value on a recurring basis.

(In millions)	Classification	Measurement Level	Fair Value Measurements at January 28, 2022	January 29, 2021
Available-for-sale debt securities:				
Money market funds	Short-term investments	Level 1	$ 120	$ 109
U.S. Treasury securities	Short-term investments	Level 1	75	223
Commercial Paper	Short-term investments	Level 2	30	97
Certificates of deposit	Short-term investments	Level 1	14	—
Foreign government debt securities	Short-term investments	Level 2	14	—

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(In millions)	Classification	Measurement Level	Fair Value Measurements at January 28, 2022	January 29, 2021
Municipal obligations	Short-term investments	Level 2	10	—
Corporate debt securities	Short-term investments	Level 2	8	47
Agency securities	Short-term investments	Level 2	—	30
U.S. Treasury securities	Long-term investments	Level 1	132	129
Corporate debt securities	Long-term investments	Level 2	50	58
Foreign government debt securities	Long-term investments	Level 2	14	—
Municipal obligations	Long-term investments	Level 2	3	13
Derivative instruments:				
Forward interest rate swaps	Other current assets	Level 2	$ 66	$ —
Forward interest rate swaps	Other assets	Level 2	48	4
Forward interest rate swaps	Other current liabilities	Level 2	—	8
Fixed-to-floating interest rate swaps	Other liabilities	Level 2	21	—

There were no transfers between Levels 1, 2, or 3 during any of the periods presented.

When available, quoted prices were used to determine fair value. When quoted prices in active markets were available, investments were classified within Level 1 of the fair value hierarchy. When quoted prices in active markets were not available, fair values were determined using pricing models, and the inputs to those pricing models were based on observable market inputs. The inputs to the pricing models were typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

For the fiscal years ended January 28, 2022 and January 29, 2021, the Company had no material measurements of assets and liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

Other Fair Value Disclosures

The Company's financial assets and liabilities not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, accounts payable, and long-term debt and are reflected in the financial statements at cost. With the exception of long-term debt, cost approximates fair value for these items due to their short-term nature. As further described in Note 9, certain long-term debt is associated with a fair value hedge, and the changes in fair value of the hedged debt is included in the carrying value of long-term debt on the consolidated balance sheets. The fair values of the Company's unsecured notes were estimated using quoted market prices. The fair values of the Company's mortgage notes were estimated using discounted cash flow analyses, based on the future cash outflows associated with these arrangements and discounted using the applicable incremental borrowing rate.

Carrying amounts and the related estimated fair value of the Company's long-term debt, excluding finance lease obligations, are as follows:

	January 28, 2022		January 29, 2021	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Unsecured notes (Level 1)	$ 24,056	$ 25,425	$ 21,121	$ 24,349
Mortgage notes (Level 2)	5	5	5	5
Long-term debt (excluding finance lease obligations)	**$ 24,061**	**$ 25,430**	**$ 21,126**	**$ 24,354**

NOTE 4: Property and Accumulated Depreciation

Property is summarized by major class in the following table:

(In millions)	Estimated Depreciable Lives, In Years	January 28, 2022	January 29, 2021
Cost:			
Land	N/A	$ 7,278	$ 7,315
Buildings and building improvements	5-40	18,433	18,090
Equipment	2-15	10,533	10,466
Construction in progress	N/A	715	831
Total cost		**36,959**	**36,702**
Accumulated depreciation		(17,888)	(17,547)
Property, less accumulated depreciation		**$ 19,071**	**$ 19,155**

Included in property, less accumulated depreciation are right-of-use assets under finance leases. The related amortization expense for right-of-use assets under finance leases is included in depreciation and amortization expense. The Company recognized depreciation and amortization expense, inclusive of amounts presented in cost of sales, of $1.8 billion in 2021, $1.5 billion in 2020, and $1.4 billion in 2019.

NOTE 5: Goodwill and Intangible Assets

The carrying amount of goodwill as well as the gross carrying amount and accumulated amortization of intangible assets consist of the following:

	January 28, 2022		January 29, 2021	
(In millions)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Goodwill	**$ 311**	**$ —**	**$ 311**	**$ —**
Definite-lived intangible assets:				
Customer-related [1]	$ 344	$ (88)	$ 372	$ (99)
Trademarks and trade names [1]	263	(131)	264	(119)
Other	1	(1)	12	(11)
Total definite-lived intangible assets	**$ 608**	**$ (220)**	**$ 648**	**$ (229)**
Indefinite-lived intangible assets:				
Trademark [2]	$ 134	$ —	$ —	$ —
Total intangible assets	**$ 742**	**$ (220)**	**$ 648**	**$ (229)**

[1] *Certain definite-lived intangible assets are denominated in a foreign currency and subject to translation.*

[2] *In April 2021, the Company acquired the STAINMASTER® brand for total consideration of $134 million, which was determined to have an indefinite life.*

Amortization expense for intangible assets is as follows:

	Years Ended		
(In millions)	January 28, 2022	January 29, 2021	January 31, 2020
Amortization expense	$ 32	$ 59	$ 39

Amortization expense expected to be recognized in future periods for intangible assets is as follows:

(In millions)	Amortization Expense	
Fiscal 2022	$	35
Fiscal 2023		32
Fiscal 2024		32
Fiscal 2025		32
Fiscal 2026		31
Thereafter		226
Total	**$**	**388**

NOTE 6: Leases

The lease-related assets and liabilities recorded on the balance sheet are summarized in the following table:

Leases (In millions)	**Classification**		**January 28, 2022**		**January 29, 2021**
Assets					
Operating lease assets	Operating lease right-of-use assets	$	4,108	$	3,832
Finance lease assets	Property, less accumulated depreciation [1]		548		539
Total lease assets			**4,656**		**4,371**
Liabilities					
Current					
Operating	Current operating lease liabilities		636		541
Finance	Current maturities of long-term debt		103		86
Noncurrent					
Operating	Noncurrent operating lease liabilities		4,021		3,890
Finance	Long-term debt, excluding current maturities		563		564
Total lease liabilities		**$**	**5,323**	**$**	**5,081**

[1] *Finance lease assets are recorded net of accumulated amortization of $206 million as of January 28, 2022, and $122 million as of January 29, 2021.*

The table below presents the lease costs for finance and operating leases:

	Years Ended					
Lease Cost (In millions)		**January 28, 2022**		**January 29, 2021**		**January 31, 2020**
Finance lease cost						
Amortization of leased assets	$	89	$	82	$	45
Interest on lease liabilities		30		32		30
Operating lease cost [1]		699		659		674
Variable lease cost		268		244		224
Total lease cost	**$**	**1,086**	**$**	**1,017**	**$**	**973**

[1] *Includes short-term leases and sublease income, which are immaterial.*

The future minimum rental payments required under operating and finance lease obligations as of January 28, 2022, having initial or remaining non-cancelable lease terms in excess of one year are summarized as follows:

Maturity of lease liabilities (In millions)	**Operating Leases** [1]	**Finance Leases** [2]	**Total**
2022	$ 767	$ 126	$ 893
2023	735	121	856
2024	647	108	755
2025	649	100	749
2026	560	83	643
After 2026	2,332	267	2,599
Total lease payments	**5,690**	**805**	**6,495**
Less: Interest [3]	(1,033)	(139)	(1,172)
Present value of lease liabilities [4]	**$ 4,657**	**$ 666**	**$ 5,323**

1 *Operating lease payments include $268 million related to options to extend lease terms that are reasonably certain of being exercised and exclude $638 million of minimum lease payments for leases signed but not yet commenced.*
2 *Finance lease payments exclude $6 million of minimum lease payments for leases signed but not yet commenced.*
3 *Calculated using the lease-specific incremental borrowing rate.*
4 *Includes the current portion of $636 million for operating leases and $103 million for finance leases.*

Lease Term and Discount Rate	**January 28, 2022**	**January 29, 2021**
Weighted-average remaining lease term (years)		
Operating leases	9.53	9.61
Finance leases	8.49	7.88
Weighted-average discount rate		
Operating leases	3.59 %	3.88 %
Finance leases	4.91 %	5.34 %

Other Information	**Years Ended**		
(In millions)	**January 28, 2022**	**January 29, 2021**	**January 31, 2020**
Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows used for operating leases	$ 708	$ 643	$ 825
Operating cash flows used for finance leases	30	32	30
Financing cash flows used for finance leases	92	104	57
Leased assets obtained in exchange for new finance lease liabilities	110	69	329
Leased assets obtained in exchange for new operating lease liabilities [1]	815	465	551

1 *Excludes $638 million of leases signed but not yet commenced as of January 28, 2022.*

NOTE 7: Exit Activities

During fiscal years 2020 and 2019, the Company incurred costs associated with an ongoing strategic reassessment of its business to drive an increased focus on its core home improvement operations and to improve overall operating performance and profitability. As a result of this reassessment, the Company decided to exit certain activities and close certain locations as further described below. Expenses associated with long-lived asset impairment, severance, and other closing costs are included in SG&A expense in the consolidated statements of earnings. Expenses associated with accelerated depreciation are included in depreciation and amortization expense in the consolidated statements of earnings.

Canada Restructuring

During the third quarter of fiscal 2019, the Company began a strategic review of its Canadian operations, and as a result, recognized pre-tax charges of $53 million associated with long-lived asset impairment. Subsequent to the end of the Company's third quarter of fiscal 2019, a decision was made to close 34 under-performing stores in Canada and take additional

[Table of Contents](#)

restructuring actions to improve future sales and profitability of the Canadian operations. As a result of these actions, during fiscal 2020, the Company recognized pre-tax charges of $35 million. A summary of the significant charges associated with the restructuring of the Canadian operations are as follows:

	Years Ended	
(In millions)	January 29, 2021	January 31,
Long-lived asset impairment	$ —	$
Severance costs	15	
Accelerated depreciation and amortization	1	
Other closing costs	19	
Total	**$ 35**	**$**

The following table summarizes store closing lease obligations activity during the twelve months ended January 28, 2022 and January 29, 2021:

(In millions)	January
Accrual for exit activities, balance at beginning of year	**$**
Cash payments	
Adjustments [1]	
Accrual for exit activities, balance at end of year	**$**

[1] *Adjustments represent lease terminations and changes in estimates around sublease assumptions.*

NOTE 8: Debt

Commercial Paper Program

In December 2021, the Company entered into a $2.0 billion five-year unsecured revolving third amended and restated credit agreement (the Third Amended and Restated Credit Agreement) with a syndicate of banks. The Third Amended and Restated Credit Agreement amends and restates the Company’s amended and restated credit agreement, dated September 10, 2018 (the Second Amended and Restated Credit Agreement), to among other things (i) extend the maturity date of the revolving credit facility to December 2026 and (ii) increase the aggregate availability to a total of $2.0 billion. Borrowings under the Third Amended and Restated Credit Agreement will bear interest calculated according to a Base Rate or a Eurocurrency Rate, plus an applicable margin.

Also in December 2021, the Company amended the five-year unsecured revolving credit agreement dated March 23, 2020 (the 2020 Credit Agreement) with a syndicate of banks. The amendment, among other things, increased the availability of the unsecured revolving credit agreement to $2.0 billion, maturing in March 2025. Borrowings under the 2020 Credit Agreement will bear interest calculated according to a Base Rate or a Eurocurrency Rate, plus an applicable margin.

Subject to obtaining commitments from the lenders and satisfying other conditions specified in the Third Amended and Restated Credit Agreement and the 2020 Credit Agreement (collectively, the Credit Agreements), the Company may increase the combined aggregate availability of both agreements by an additional $1.0 billion. The Credit Agreements contain customary representations, warranties, and covenants for transactions of these type. The Company was in compliance with those financial covenants at January 28, 2022.

The Credit Agreements support the Company’s commercial paper program. The amounts available to be drawn under the Credit Agreements are reduced by the amount of borrowings under the commercial paper program. There were no outstanding borrowings under the Company’s commercial paper program, the Third Amended and Restated Credit Agreement, or the 2020 Credit Agreement as of January 28, 2022. There were no outstanding borrowings under the Company’s commercial paper program, the Second Amended and Restated Credit Agreement or the 2020 Credit Agreement as of January 29, 2021. Total combined availability under the Credit Agreements was $4.0 billion as of January 28, 2022.

Other Short-Term Borrowings

In April 2021, the Company entered into a $1.0 billion unsecured 364-day term loan facility (the 2021 Term Loan), which was scheduled to mature in April 2022, but was repaid early in January 2022.

Table of Contents

Long-Term Debt

Debt Category (In millions)	**Weighted-Average Interest Rate at January 28, 2022**		**January 28, 2022**		**January 29, 2021**
Secured debt:					
Mortgage notes due through fiscal 2027 [1]	4.98 %	$	5	$	5
Unsecured debt:					
Notes due through fiscal 2026	3.22 %		4,540		5,568
Notes due fiscal 2027-2031	3.04 %		9,611		7,135
Notes due fiscal 2032-2036	5.64 %		622		621
Notes due fiscal 2037-2041	4.13 %		1,862		873
Notes due fiscal 2042-2046	4.14 %		2,692		2,690
Notes due fiscal 2047-2051	3.77 %		4,729		4,234
Finance lease obligations due through fiscal 2042			666		654
Total long-term debt			**24,727**		**21,780**
Less current maturities			(868)		(1,112)
Long-term debt, excluding current maturities		**$**	**23,859**	**$**	**20,668**

[1] *Real properties with an aggregate book value of $16 million as of January 28, 2022, were pledged as collateral for secured debt.*

Debt maturities, exclusive of unamortized original issue discounts, unamortized debt issuance costs, fair-value hedge adjustments, and finance lease obligations, for the next five fiscal years and thereafter are as follows:

(In millions)		**Principal**
Fiscal 2022	$	765
Fiscal 2023		503
Fiscal 2024		450
Fiscal 2025		1,500
Fiscal 2026		1,350
Thereafter		19,717
Total	**$**	**24,285**

The Company's unsecured notes are issued under indentures that generally have similar terms and, therefore, have been grouped by maturity date for presentation purposes in the table above. The notes contain certain restrictive covenants, none of which are expected to impact the Company's capital resources or liquidity. The Company was in compliance with all financial covenants of these agreements at January 28, 2022.

During 2021, the Company issued $4.0 billion of unsecured fixed rate notes (collectively, the 2021 Notes) as follows:

Issue Date	**Principal Amount (in millions)**		**Maturity Date**	**Interest Rate**	**Discount (in millions)**	
March 2021	$	1,500	April 2031	2.625%	$	7
March 2021	$	500	April 2051	3.500%	$	5
September 2021	$	1,000	September 2028	1.700%	$	6
September 2021	$	1,000	September 2041	2.800%	$	10

Interest on the September 2021 Notes is payable semiannually in arrears in March and September of each year until maturity. Interest on the March 2021 Notes is payable semiannually in arrears in April and October of each year until maturity.

During 2020, the Company issued $8.0 billion of unsecured fixed rate notes (collectively, the 2020 Notes) as follows:

Issue Date	Principal Amount (in millions)		Maturity Date	Interest Rate	Discount (in millions)	
March 2020	$	750	April 2025	4.000%	$	4
March 2020	$	1,250	April 2030	4.500%	$	12
March 2020	$	750	April 2040	5.000%	$	10
March 2020	$	1,250	April 2050	5.125%	$	13
October 2020	$	1,000	April 2028	1.300%	$	5
October 2020	$	1,250	October 2030	1.700%	$	10
October 2020	$	1,750	October 2050	3.000%	$	17

Interest on the 2020 Notes is payable semiannually in arrears in April and October of each year until maturity.

The indentures governing the 2021 and 2020 Notes contain a provision that allows the Company to redeem these notes at any time, in whole or in part, at specified redemption prices, plus accrued interest, if any, up to the date of redemption. The indentures also contain a provision that allows the holders of the notes to require the Company to repurchase all or any part of their notes if a change of control triggering event occurs. If elected under the change of control provisions, the repurchase of the notes will occur at a purchase price of 101% of the principal amount, plus accrued interest, if any, on such notes up to the date of purchase. The indentures governing the notes do not limit the aggregate principal amount of debt securities that the Company may issue and do not require the Company to maintain specified financial ratios or levels of net worth or liquidity. However, the indentures include various restrictive covenants, none of which is expected to impact the Company's liquidity or capital resources.

The discounts associated with these issuances, which include the underwriting and issuance discounts, are recorded in long-term debt and are being amortized over the respective terms of the notes using the effective interest method.

During 2020, the Company completed cash tender offers to purchase and retire $3.0 billion combined aggregate principal amount of its outstanding notes with a weighted average interest rate of 4.80%. As a result of the 2020 cash tender offers, the Company recognized a loss on extinguishment of debt of $1.1 billion which includes premium paid to holders of the debt, unamortized deferred financing fees and original issue discounts, and loss on reverse treasury lock derivative contracts. See Note 9 for additional information regarding the reverse treasury lock derivative contracts.

NOTE 9: Derivative Instruments

Derivatives Designated as Hedging Instruments

The notional amounts of the Company's material derivative instruments are as follows:

(In millions)	January 28, 2022		January 29, 2021	
Cash flow hedges:				
Forward interest rate swap agreement notional amounts	$	2,560	$	638
Fair value hedges:				
Fixed-to-floating interest rate swap agreement notional amounts	$	850	$	—

See Note 3 for the gross fair values of the Company's outstanding derivative financial instruments and corresponding fair value classifications. The impact of forward interest rate swap derivatives, both matured and outstanding, designated as cash flow hedges recorded in other comprehensive income and earnings for 2021, 2020, and 2019, including its line item in the financial statements, is as follows:

(In millions)	Years Ended January 28, 2022	January 29, 2021	January 31, 2020
Other comprehensive income:			
Cash flow hedges – net of tax (expense)/benefit of ($35) million, $21 million, and $8 million, respectively	$ 103	$ (76)	$ (23)
Net earnings:			
Interest – net	$ 11	$ 10	$ 2

Other Derivatives Not Designated as Hedging Instruments

To hedge the economic risk of changes in value of the 2020 cash tender offers prior to the pricing date, the Company entered into reverse treasury lock derivative contracts with a combined notional amount of $2.0 billion. Upon the pricing of the 2020 cash tender offers, the Company settled the reverse treasury lock derivative contracts and made a payment to its counterparty for $26 million, which is included in loss on extinguishment of debt in the consolidated statements of earnings for the year ended January 29, 2021. The cash flows related to these contracts are included within financing activities in the accompanying consolidated statements of cash flows.

NOTE 10: Shareholders' (Deficit)/Equity

Authorized shares of preferred stock were 5.0 million ($5 par value) at January 28, 2022 and January 29, 2021, none of which have been issued. The Board of Directors may issue the preferred stock (without action by shareholders) in one or more series, having such voting rights, dividend and liquidation preferences, and such conversion and other rights as may be designated by the Board of Directors at the time of issuance.

Authorized shares of common stock were 5.6 billion ($0.50 par value) at January 28, 2022 and January 29, 2021.

The Company has a share repurchase program that is executed through purchases made from time to time either in the open market or through private off-market transactions. Shares purchased under the repurchase program are returned to authorized and unissued status. On December 15, 2021, the Company announced that its Board of Directors authorized a $13.0 billion share repurchase under the program, in addition to the $15.0 billion of share repurchases authorized by the Board of Directors in December 2020, with no expiration. As of January 28, 2022, the Company had $19.7 billion remaining under the program.

During the year ended January 28, 2022, the Company entered into Accelerated Share Repurchase (ASR) agreements with third-party financial institutions to repurchase a total of 41.6 million shares of the Company's common stock for $8.7 billion. At inception, the Company paid the financial institutions using cash on hand and took initial delivery of shares. Under the terms of the ASR agreements, upon settlement, the Company would either receive additional shares from the financial institution or be required to deliver additional shares or cash to the financial institution. The Company controlled its election to either deliver additional shares or cash to the financial institution and was subject to provisions which limited the number of shares the Company would be required to deliver.

The final number of shares received upon settlement of each ASR agreement was determined with reference to the volume-weighted average price of the Company's common stock over the term of the ASR agreement. The initial repurchase of shares under these agreements resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings per share.

These ASR agreements were accounted for as treasury stock transactions and forward stock purchase contracts. The par value of the shares received was recorded as a reduction to common stock with the remainder recorded as a reduction to capital in excess of par value and (accumulated deficit)/retained earnings. The forward stock purchase contracts were considered indexed to the Company's own stock and were classified as equity instruments.

The terms of each ASR agreement entered into during the last three fiscal years, structured as outlined above, are as follows (in millions):

Agreement Execution Date	ASR Settlement Date	ASR Agreement Amount	Minimum Notional Amount[1]	Maximum Notional Amount[1]	Cash Payment Received at Settlement[1]	Initial Shares Delivered
Q1 2019	Q1 2019	$ 350	$ 350	$ 500	$ 150	2.9
Q2 2019	Q2 2019	990	990	1,410	420	8.9
Q3 2019	Q3 2019	397	350	500	103	2.8
Q1 2020	Q1 2020	500	—	—	—	3.9
Q4 2020	Q4 2020	3,000	—	—	—	17.1
Q1 2021	Q1 2021	2,000	—	—	—	10.7
Q2 2021	Q2 2021	2,132	1,750	2,500	368	7.2
Q3 2021	Q3 2021	1,592	1,500	2,000	408	5.9
Q4 2021	Q4 2021	3,000	—	—	—	10.3

[1] *The Company entered into variable notional ASR agreements with third-party financial institutions to repurchase between a minimum notional amount and a maximum notional amount. At inception of each transaction, the Company paid the maximum notional amount and received shares. When the Company finalized each transaction, it received additional shares as well as a cash payment from the third-party financial institution equal to the difference between the prepayment amount (maximum notional amount) and the final notional amount.*

During the year ended January 28, 2022, the Company also repurchased shares of its common stock through the open market totaling 21.0 million shares for a cost of $4.3 billion.

The Company also withholds shares from employees to satisfy either the exercise price of stock options exercised or the statutory withholding tax liability resulting from the vesting of restricted stock awards and performance share units.

Total shares repurchased for 2021, 2020, and 2019 were as follows:

	Years Ended					
	January 28, 2022		January 29, 2021		January 31, 2020	
(In millions)	Shares	Cost [1]	Shares	Cost [1]	Shares	Cost [1]
Share repurchase program	62.6	$ 12,990	34.2	$ 4,940	41.0	$ 4,288
Shares withheld from employees	0.4	84	0.1	11	0.3	37
Total share repurchases	**63.0**	**$ 13,074**	**34.3**	**$ 4,951**	**41.3**	**$ 4,325**

[1] *Reductions of $12.6 billion, $4.7 billion, and $4.1 billion were recorded to (accumulated deficit)/retained earnings, after capital in excess of par value was depleted, for 2021, 2020, and 2019, respectively.*

NOTE 11: Share-Based Payments

Overview of Share-Based Payment Plans

The Company has a number of active equity incentive plans (the Incentive Plans) under which the Company has been authorized to grant share-based awards to key employees and non-employee directors. The Company also has an employee stock purchase plan (the ESPP) that allows employees to purchase Company shares at a discount through payroll deductions. All of these plans contain a non-discretionary anti-dilution provision that is designed to equalize the value of an award as a result of any stock dividend, stock split, recapitalization, or any other similar equity restructuring.

A total of 80.0 million shares were authorized for grants of share-based awards to key employees and non-employee directors under the Company’s currently active Incentive Plans, of which there were 27.0 million shares remaining available for grants as of January 28, 2022.

On May 29, 2020, shareholders approved the Lowe’s Companies, Inc. 2020 Employee Stock Purchase Plan (the 2020 ESPP), which permits a maximum number of shares offered under the new plan of 20.0 million shares. The first offering date under the 2020 ESPP began December 1, 2020, following the expiration of the Lowe's Companies Employee Stock Purchase Plan – Stock Options for Everyone (the Former ESPP). From its adoption to expiration on November 30, 2020, there were 50.5 million of the 70.0 million authorized shares issued under the Former ESPP. The first offering period under the 2020 ESPP ended May 31, 2021, with the automatic exercise of options occurring the same day. As of January 28, 2022, there were 19.4 million shares remaining available for purchases.

The Company recognized share-based payment expense within SG&A expense in the consolidated statements of earnings of $230 million, $155 million, and $98 million in 2021, 2020, and 2019, respectively. The total associated income tax benefit recognized, exclusive of excess tax benefits, was $40 million, $29 million, and $15 million in 2021, 2020, and 2019, respectively.

Total unrecognized share-based payment expense for all share-based payment plans was $299 million at January 28, 2022, of which $186 million will be recognized in 2022, $97 million in 2023, and $16 million thereafter. This results in these amounts being recognized over a weighted-average period of 1.5 years.

For all share-based payment awards, the expense recognized has been adjusted for estimated forfeitures where the requisite service is not expected to be met. Estimated forfeiture rates are developed based on the Company's analysis of historical forfeiture data for homogeneous employee groups.

General terms and methods of valuation for the Company's share-based awards are as follows:

Stock Options

Stock options have terms of 10 years, with one-third of each grant vesting each year for three years, subsequent to the date of the grant, and are assigned an exercise price equal to the closing market price of a share of the Company's common stock on the date of grant. Options are expensed on a straight-line basis over the grant vesting period, which is considered to be the requisite service period.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. When determining expected volatility, the Company considers the historical volatility of the Company's stock price, as well as implied volatility. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant, based on the options' expected term. The expected term of the options is based on the Company's evaluation of option holders' exercise patterns and represents the period of time that options are expected to remain unexercised. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted average assumptions used in the Black-Scholes option-pricing model and weighted-average grant date fair value for options granted in 2021, 2020, and 2019 are as follows:

	Years Ended		
	January 28, 2022	**January 29, 2021**	**January 31, 2020**
Weighted-average assumptions used:			
Expected volatility	30.2 %	28.8 %	23.0 %
Dividend yield	1.73 %	1.78 %	1.73 %
Risk-free interest rate	1.25 %	0.47 %	2.28 %
Expected term, in years	6.49	6.50	6.38
Weighted-average grant date fair value	$ 49.47	$ 18.82	$ 23.66

The total intrinsic value of options exercised, representing the difference between the exercise price and the market price on the date of exercise, was approximately $46 million, $60 million, and $44 million in 2021, 2020, and 2019, respectively.

Transactions related to stock options for the fiscal year ended January 28, 2022 are summarized as follows:

	Shares (In thousands)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 29, 2021	**2,135**	**$ 89.51**		
Granted	318	191.31		
Canceled, forfeited or expired	(81)	112.50		
Exercised	(361)	79.72		
Outstanding at January 28, 2022	**2,011**	**$ 106.43**	**7.44**	**$ 258,513**
Vested and expected to vest at January 28, 2022[1]	1,963	$ 105.39	7.41	$ 254,439
Exercisable at January 28, 2022	1,072	$ 93.24	6.66	$ 151,988

[1] *Includes outstanding vested options as well as outstanding nonvested options after a forfeiture rate is applied.*

Restricted Stock Awards

Restricted stock awards are valued at the market price of a share of the Company's common stock on the date of grant. In general, these awards vest 50% at the end of a two-year period from the date of grant and 50% at the end of a three-year period from the date of grant. Certain awards vest 100% at the end of a three-year period from the date of grant. All awards are expensed on a straight-line basis over a three-year period, which is considered to be the requisite service period. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted-average grant-date fair value per share of restricted stock awards granted was $192.26, $83.83, and $109.04 in 2021, 2020, and 2019, respectively. The total fair value of restricted stock awards vesting each year was approximately $200 million, $31 million, and $64 million in 2021, 2020, and 2019, respectively.

Transactions related to restricted stock awards for the fiscal year ended January 28, 2022 are summarized as follows:

	Shares (In thousands)	Weighted-Average Grant-Date Fair Value Per Share
Nonvested at January 29, 2021	**2,972**	**$ 92.30**
Granted	672	192.26
Vested	(1,026)	96.02
Canceled or forfeited	(311)	113.04
Nonvested at January 28, 2022	**2,307**	**$ 117.04**

Deferred Stock Units

Deferred stock units are valued at the market price of a share of the Company's common stock on the date of grant. For non-employee Directors, these awards vest immediately and are expensed on the grant date. During 2021, 2020, and 2019, each non-employee Director was awarded a number of deferred stock units determined by dividing the annual award amount by the fair market value of a share of the Company's common stock on the award date and rounding up to the next 100 units. The annual award amount used to determine the number of deferred stock units granted to each Director was $175,000 for 2021, 2020, and 2019. During 2021, 9,800 deferred stock units were granted and immediately vested for non-employee Directors. The weighted-average grant-date fair value per share of deferred stock units granted was $194.83, $130.35, and $93.28 in 2021, 2020, and 2019, respectively. The total fair value of deferred stock units vested was $2 million, $2 million, and $2 million in 2021, 2020, and 2019, respectively. At January 28, 2022, there were 107,000 deferred stock units outstanding, all of which are vested.

Performance Share Units

The Company issues performance share units classified as equity awards. Expense is recognized on a straight-line basis over the requisite service period, based on the probability of achieving the performance condition, with changes in expectations recognized as an adjustment to earnings in the period of the change. Compensation cost is not recognized for performance share units that do not vest because service or performance conditions are not satisfied, and any previously recognized compensation cost is reversed. Performance share units do not have dividend rights. The Company uses historical data to estimate the timing and amount of forfeitures.

The Company's performance share units are classified as equity and contain performance and service conditions that must be satisfied for an employee to earn the right to benefit from the award. The performance share units contain a market condition modifier, in addition to having a performance and service condition. The performance condition for these awards continues to be based primarily on the achievement of the Company's return on invested capital (ROIC) targets. The market condition is based on the Company's total shareholder return (TSR) compared to the median TSR of companies listed in the S&P 500 Index over a three-year performance period. The Company uses a Monte-Carlo simulation to determine the grant date fair value for these awards, which takes into consideration the market price of a share of the Company's common stock on the date of grant less the present value of dividends expected during the requisite service period, as well as the possible outcomes pertaining to the TSR market condition.

The weighted-average assumptions used in the Monte Carlo simulations for these awards granted in 2021, 2020, and 2019 are as follows:

	Years Ended		
	January 28, 2022	**January 29, 2021**	**January 31, 2020**
Weighted-average assumptions used:			
Expected volatility	37.5 %	38.5 %	24.1 %
Dividend yield	1.77 %	1.89 %	1.89 %
Risk-free interest rate	0.35 %	0.13 %	2.28 %
Expected term, in years	2.84	2.42	2.84

In general, 0% to 200% of the Company's performance share units vest at the end of a three-year service period from the date of grant based upon achievement of the performance condition, or a combination of the performance and market conditions, specified in the performance share unit agreement.

The weighted-average grant-date fair value per unit of performance share units classified as equity awards granted was $208.74, $203.85, and $115.93 in 2021, 2020, and 2019, respectively. There were no performance share units vesting in 2021 or 2020. The total fair value of performance share units vesting was approximately $19 million in 2019.

Transactions related to performance share units classified as equity awards for the fiscal year ended January 28, 2022 are summarized as follows:

	Units (In thousands)[1]	**Weighted-Average Grant-Date Fair Value Per Unit**
Nonvested at January 29, 2021	**703**	**$ 149.61**
Granted	165	208.74
Canceled or forfeited	(222)	104.68
Nonvested at January 28, 2022	**646**	**$ 180.13**

[1] *The number of units presented is based on achieving the targeted performance goals as defined in the performance share unit agreements. As of January 28, 2022, the maximum number of nonvested units that could vest under the provisions of the agreements was 1.3 million.*

Restricted Stock Units

Restricted stock units do not have dividend rights and are valued at the market price of a share of the Company's common stock on the date of grant less the present value of dividends expected during the requisite service period. In general, these awards vest 50% at the end of a two-year period from the date of grant and 50% at the end of a three-year period from the date of grant. Certain awards vest 100% at the end of a three-year period from the date of grant. All awards are expensed on a straight-line basis over that period, which is considered to be the requisite service period. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted-average grant-date fair value per share of restricted stock units granted was $184.40, $75.59, and $103.40 in 2021, 2020, and 2019, respectively. The total fair value of restricted stock units vesting was approximately $47 million, $5 million, and $9 million in 2021, 2020, and 2019, respectively.

Transactions related to restricted stock units for the fiscal year ended January 28, 2022 are summarized as follows:

	Shares (In thousands)	Weighted-Average Grant-Date Fair Value Per Share
Nonvested at January 29, 2021	**992**	**$ 84.84**
Granted	329	184.40
Vested	(240)	94.71
Canceled or forfeited	(187)	110.10
Nonvested at January 28, 2022	**894**	**$ 113.51**

ESPP

The purchase price of the shares under both the 2020 ESPP and the Former ESPP equals 85% of the closing price on the date of purchase. The Company's share-based payment expense per share is equal to 15% of the closing price on the date of purchase. The ESPP is considered a liability award and is measured at fair value at each reporting date, and the share-based payment expense is recognized over the six-month offering period. Under the 2020 ESPP, the Company issued 0.6 million shares of common stock in 2021 and recognized $20 million of share-based payment expense. Under the Former ESPP, the Company issued 0.7 million and 0.8 million shares of common stock in 2020 and 2019, respectively, and recognized $16 million and $13 million of share-based payment expense pursuant to the Former ESPP in 2020 and 2019, respectively.

NOTE 12: Employee Retirement Plans

The Company maintains a defined contribution retirement plan for eligible employees (the 401(k) Plan). Eligible employees may participate in the 401(k) Plan the first of the month after thirty days of employment. The Company makes contributions to the 401(k) Plan each payroll period, based upon a matching formula applied to employee deferrals (the Company Match). Participants are eligible to receive the Company Match pursuant to the terms of the 401(k) Plan. The Company Match varies based on how much the employee elects to defer up to a maximum of 4.25% of eligible compensation. The Company Match is invested identically to employee contributions and is immediately vested.

The Company maintains a Benefit Restoration Plan to supplement benefits provided under the 401(k) Plan to participants whose benefits are restricted as a result of certain provisions of the Internal Revenue Code of 1986. This plan provides for employee salary deferrals and employer contributions in the form of a Company Match.

The Company maintains a non-qualified deferred compensation program called the Lowe's Cash Deferral Plan. This plan is designed to permit certain employees to defer receipt of portions of their compensation, thereby delaying taxation on the deferral amount and on subsequent earnings until the balance is distributed. This plan does not provide for Company contributions.

The Company recognized expense associated with these employee retirement plans of $177 million, $175 million, and $175 million in 2021, 2020, and 2019, respectively.

NOTE 13: Income Taxes

The following is a reconciliation of the federal statutory tax rate to the effective tax rate:

	Years Ended		
	January 28, 2022	January 29, 2021	January 31, 2020
Statutory federal income tax rate	21.0 %	21.0 %	21.0 %
State income taxes, net of federal tax benefit	4.0	4.0	4.1
Valuation allowance	—	—	1.3
Mexico impairment	—	—	(1.4)
Other, net	(0.3)	(0.4)	(1.1)
Effective tax rate	**24.7 %**	**24.6 %**	**23.9 %**

The components of the income tax provision are as follows:

	Years Ended		
(In millions)	January 28, 2022	January 29, 2021	January 31, 2020
Current:			
Federal	$ 2,069	$ 1,578	$ 935
State	557	425	268
Total current [1]	**2,626**	**2,003**	**1,203**
Deferred:			
Federal	129	(73)	121
State	11	(26)	18
Total deferred [1]	**140**	**(99)**	**139**
Total income tax provision	**$ 2,766**	**$ 1,904**	**$ 1,342**

[1] *Amounts applicable to foreign income taxes were insignificant for all periods presented.*

The tax effects of cumulative temporary differences that gave rise to the deferred tax assets and liabilities were as follows:

(In millions)	January 28, 2022	January 29, 2021
Deferred tax assets:		
Self-insurance	$ 287	$ 284
Share-based payment expense	53	48
Operating lease liabilities	1,386	1,328
Capital loss carryforwards	225	225
Net operating losses	251	274
Other, net	242	337
Total deferred tax assets	**2,444**	**2,496**
Valuation allowance	(590)	(601)
Net deferred tax assets	**1,854**	**1,895**
Deferred tax liabilities:		
Operating lease assets	(1,378)	(1,146)
Property	(267)	(382)
Other, net	(45)	(27)
Total deferred tax liabilities	**(1,690)**	**(1,555)**
Net deferred tax assets	**$ 164**	**$ 340**

As of January 28, 2022, the Company reported a deferred tax asset of $225 million, for the capital loss realized in 2017 for U.S. federal income tax purposes related to the exit from the Company's joint venture investment in Australia. Since no present or future capital gains have been identified through which the asset can be realized, the Company has a full valuation allowance against the deferred tax asset. For U.S. federal tax purposes, this loss has a five-year carryforward period expiring at the end of fiscal 2022.

The Company operates Lowe's Companies Canada, ULC as a branch and has cumulatively incurred Canadian net operating losses of $750 million and $769 million as of January 28, 2022 and January 29, 2021, respectively. The Company operates RONA inc. as a foreign corporation and has cumulatively incurred Canadian net operating losses of $189 million and $261 million as of January 28, 2022 and January 29, 2021, respectively. These net operating losses are subject to expiration in 2024 through 2041. Deferred tax assets have been established for these foreign net operating losses in the accompanying consolidated balance sheets. Given the uncertainty regarding the realization of the foreign net deferred tax assets, the Company recorded cumulative valuation allowances of $346 million and $357 million as of January 28, 2022 and January 29, 2021, respectively. These valuation allowances are based on management's assessment of the available positive and negative evidence to estimate the realization of this entity's existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year periods ended January 28, 2022 and January 29, 2021, respectively. The amount of the deferred tax asset considered realizable, however, could be adjusted if objective negative evidence in the form of cumulative losses is no longer present and if estimates of future taxable income are increased.

A reconciliation of the beginning and ending balances of unrecognized tax benefits is as follows:

	Years Ended		
(In millions)	January 28, 2022	January 29, 2021	January 31, 2020
Unrecognized tax benefits, beginning of year	$ 2	$ 4	$ 10
Additions for tax positions of prior years	38	—	2
Reductions for tax positions of prior years	—	—	(3)
Settlements	(2)	(2)	(5)
Unrecognized tax benefits, end of year	**$ 38**	**$ 2**	**$ 4**

The unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate were $38 million as of January 28, 2022 and $2 million as of January 29, 2021.

The net interest expense recognized by the Company related to uncertain tax positions was $12 million for 2021, and insignificant for 2020 and 2019. The Company had $11 million and $1 million of accrued interest related to uncertain tax positions as of January 28, 2022 and January 29, 2021.

Penalties recognized related to uncertain tax positions were $4 million for 2021 and insignificant for tax years 2020 and 2019. The Company had $4 million of accrued penalties related to uncertain tax positions as of January 28, 2022, and no accrued penalties as of January 29, 2021.

The Company is subject to examination by various foreign and domestic taxing authorities. There are ongoing U.S. state audits covering tax years 2015 to 2020. An audit of the Company's Canadian operations by the Canada Revenue Agency for fiscal years 2015 and 2016 is on-going. The Company remains subject to income tax examinations for fiscal years 2015 through 2020. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years.

Note 14: Earnings Per Share

The Company calculates basic and diluted earnings per common share using the two-class method. Under the two-class method, net earnings are allocated to each class of common stock and participating security as if all of the net earnings for the period had been distributed. The Company's participating securities consist of share-based payment awards that contain a nonforfeitable right to receive dividends and, therefore, are considered to participate in undistributed earnings with common shareholders.

Basic earnings per common share excludes dilution and is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares as of the balance sheet date, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings per common share for 2021, 2020, and 2019:

	Years Ended		
(In millions, except per share data)	January 28, 2022	January 29, 2021	January 31, 2020
Basic earnings per common share:			
Net earnings attributable to Lowe's Companies, Inc.	$ 8,442	$ 5,835	$ 4,281
Less: Net earnings allocable to participating securities	(33)	(24)	(13)
Net earnings allocable to common shares, basic	**$ 8,409**	**$ 5,811**	**$ 4,268**
Weighted-average common shares outstanding	**696**	**748**	**777**
Basic earnings per common share	**$ 12.07**	**$ 7.77**	**$ 5.49**
Diluted earnings per common share:			
Net earnings attributable to Lowe's Companies, Inc.	$ 8,442	$ 5,835	$ 4,281
Less: Net earnings allocable to participating securities	(33)	(24)	(13)
Net earnings allocable to common shares, diluted	**$ 8,409**	**$ 5,811**	**$ 4,268**
Weighted-average common shares outstanding	696	748	777
Dilutive effect of non-participating share-based awards	3	2	1
Weighted-average common shares, as adjusted	**699**	**750**	**778**
Diluted earnings per common share	**$ 12.04**	**$ 7.75**	**$ 5.49**
Anti-dilutive securities excluded from diluted weighted-average common shares	0.3	0.3	0.9

NOTE 15: Commitments and Contingencies

The Company is, from time to time, party to various legal proceedings considered to be in the normal course of business, none of which, individually or in the aggregate, are expected to be material to the Company's financial statements. In evaluating liabilities associated with its various legal proceedings, the Company has accrued for probable liabilities associated with these matters. The amounts accrued were not material to the Company's consolidated financial statements in any of the years presented. Reasonably possible losses for any of the individual legal proceedings which have not been accrued were not material to the Company's consolidated financial statements.

As of January 28, 2022, the Company had non-cancellable commitments of $1.6 billion related to certain marketing and information technology programs, and purchases of merchandise inventory. These commitments include agreements to purchase goods or services that are enforceable, are legally binding, and specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Payments under these commitments are scheduled to be made as follows: 2022, $1.1 billion; 2023, $402 million; 2024, $78 million; 2025, $68 million; 2026, $9 million.

At January 28, 2022, the Company held standby and documentary letters of credit issued under banking arrangements which totaled $462 million. The majority of the Company's letters of credit were issued to support the Company's warranty program.

NOTE 16: Related Parties

A former member of the Company's Board of Directors also serves on the Board of Directors of a vendor that provides branded consumer packaged goods to the Company. The Company purchased products from this vendor in the amount of $203 million in 2021, $214 million in 2020, and $165 million in 2019. Amounts payable to this vendor were insignificant to the Company at January 28, 2022 and January 29, 2021. This was no longer considered a related party relationship as of January 28, 2022.

The Company’s President and Chief Executive Officer also serves on the Board of Directors of a vendor that provides transportation and business services to the Company. The Company purchased services from this vendor in the amount of $269 million in 2021, $138 million in 2020, and $117 million in 2019. Amounts payable to this vendor were insignificant to the Company at January 28, 2022 and January 29, 2021.

NOTE 17: Other Information

Net interest expense is comprised of the following:

	Years Ended		
(In millions)	January 28, 2022	January 29, 2021	January 31, 2020
Long-term debt	$ 827	$ 807	$ 668
Lease obligations	30	32	30
Short-term borrowings	5	13	—
Interest income	(12)	(24)	(27)
Interest capitalized	(3)	—	(1)
Interest on tax uncertainties	12	—	—
Other	26	20	21
Interest – net	**$ 885**	**$ 848**	**$ 691**

Supplemental disclosures of cash flow information:

	Years Ended		
(In millions)	January 28, 2022	January 29, 2021	January 31, 2020
Cash paid for interest, net of amount capitalized	$ 837	$ 824	$ 671
Cash paid for income taxes, net	$ 2,735	$ 1,588	$ 1,423
Non-cash investing and financing activities: [1]			
Cash dividends declared but not paid	$ 537	$ 440	$ 420

[1] *See Note 6 for supplemental cash flow disclosures related to finance and operating leases.*

Sales by product category:

	Years Ended					
	January 28, 2022		January 29, 2021		January 31, 2020	
(Dollars in millions)	Total Sales	%	Total Sales	%	Total Sales	%
Appliances	$ 13,427	14.0 %	$ 12,096	13.5 %	$ 9,972	13.8 %
Lumber	9,722	10.1	8,344	9.3	5,710	7.9
Seasonal & Outdoor Living	9,555	9.9	8,854	9.9	6,813	9.4
Lawn & Garden	9,043	9.4	8,864	9.9	6,487	9.0
Kitchens & Bath	6,781	7.0	6,154	6.9	5,430	7.5
Tools	5,392	5.6	5,461	6.1	4,295	6.0
Millwork	5,331	5.5	4,971	5.5	4,202	5.8
Paint	5,132	5.3	5,372	6.0	4,073	5.6
Flooring	4,952	5.1	4,445	5.0	3,885	5.4
Rough Plumbing	4,762	4.9	4,334	4.8	3,831	5.3
Hardware	4,581	4.8	4,697	5.2	3,842	5.3
Building Materials	4,370	4.5	4,115	4.6	3,446	4.8
Décor	3,732	3.9	3,469	3.9	2,838	3.9
Electrical	3,536	3.7	2,973	3.3	2,447	3.4
Lighting	3,429	3.6	3,481	3.9	2,887	4.0
Other	2,505	2.7	1,967	2.2	1,990	2.9
Net sales	**$ 96,250**	**100.0 %**	**$ 89,597**	**100.0 %**	**$ 72,148**	**100.0 %**

Note: Product category sales for prior periods have been reclassified to conform to the current year presentation.

SUPPLEMENTARY DATA

Selected Quarterly Data (UNAUDITED)

The following table summarizes the quarterly consolidated results of operations for 2021 and 2020:

	Year Ended January 28, 2022			
(In millions, except per share data)	First	Second	Third	Fourth
Net sales	$ 24,422	$ 27,570	$ 22,918	$ 21,339
Gross margin	8,130	9,312	7,587	7,027
Net earnings	2,321	3,018	1,896	1,206
Basic earnings per common share	3.22	4.27	2.74	1.79
Diluted earnings per common share	$ 3.21	$ 4.25	$ 2.73	$ 1.78

	Year Ended January 29, 2021			
(In millions, except per share data)	First	Second	Third	Fourth
Net sales	$ 19,675	$ 27,302	$ 22,309	$ 20,311
Gross margin	6,513	9,304	7,300	6,456
Net earnings	1,337	2,828	692	978
Basic earnings per common share	1.76	3.74	0.92	1.33
Diluted earnings per common share	$ 1.76	$ 3.74	$ 0.91	$ 1.32

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A - Controls and Procedures

The Company’s management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s “disclosure controls and procedures”, (as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act)). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Annual Report, the Company’s disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and (2) is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management’s report on internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) and the report of Deloitte & Touche LLP, the Company’s independent registered public accounting firm, are included in Item 8 of this Annual Report.

In addition, no change in the Company’s internal control over financial reporting occurred during the fiscal fourth quarter ended January 28, 2022, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B - Other Information

None.

Item 9C - Disclosure Regarding Foreign Jurisdictions that Prevent Inspections
Not applicable.

Part III

Item 10 - Directors, Executive Officers and Corporate Governance

The information required by this item with respect to our executive officers appears in Part I of this Annual Report under the heading, “Information About Our Executive Officers”. The other information required by this item is furnished by incorporation by reference to the information under the headings “Proposal 1: Election of Directors”, “Corporate Governance”, and “Additional Information - Shareholder Proposals for the 2023 Annual Meeting” in the definitive Proxy Statement for the 2022 annual meeting of shareholders, which will be filed with the SEC within 120 days after the fiscal year ended January 28, 2022 (the Proxy Statement).

We have adopted a written code of business conduct and ethics, which is intended to qualify as a “code of ethics” within the meaning of Item 406 of Regulation S-K of the Exchange Act, which we refer to as the Lowe’s Code of Business Conduct and Ethics (the Code). The Code applies to all employees of the Company, including our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions. The Code is designed to ensure that the Company’s business is conducted in a legal and ethical manner. The Code covers all areas of professional conduct, including compliance with laws and regulations, conflicts of interest, fair dealing among customers and suppliers, corporate opportunity, confidential information, insider trading, employee relations, and accounting complaints. The full text of the Code can be found on our website at www.Lowes.com, under the “About Lowe’s”, “Investors”, and “Corporate Governance - Governance Documents” headings. You can also obtain a copy of the complete Code by contacting Investor Relations by phone at 1-800-813-7613 or email at investorrelations@lowes.com.

We will disclose information pertaining to amendments or waivers to provisions of the Code that apply to our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions and that relate to any element of the Code enumerated in the SEC rules and regulations by posting this information on our website at www.Lowes.com. The information on our website is not a part of this Annual Report and is not incorporated by reference in this report or any of our other filings with the SEC.

Item 11 - Executive Compensation

The information required by this item is furnished by incorporation by reference to the information under the headings “Corporate Governance – Compensation of Directors”, “Compensation Discussion and Analysis”, “Compensation Tables”, and “Compensation Committee Interlocks and Insider Participation” in the Proxy Statement.

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is furnished by incorporation by reference to the information under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the Proxy Statement.

Item 13 - Certain Relationships and Related Transactions, and Director Independence

The information required by this item is furnished by incorporation by reference to the information under the headings “Corporate Governance – Director Independence”, “Related Person Transactions”, and “Appendix B: Categorical Standards for Determination of Director Independence” in the Proxy Statement.

Item 14 - Principal Accountant Fees and Services

The information required by this item is furnished by incorporation by reference to the information under the heading “Audit Matters – Fees Paid to the Independent Registered Public Accounting Firm” in the Proxy Statement.

Part IV

Item 15 – Exhibits and Financial Statement Schedules

a) 1. Financial Statements

See the following items and page numbers appearing in Item 8 of this Annual Report:

	Page No.
Reports of Independent Registered Public Accounting Firm	35
Consolidated Statements of Earnings for each of the three fiscal years in the period ended January 28, 2022	38
Consolidated Statements of Comprehensive Income for each of the three fiscal years in the period ended January 28, 2022	38
Consolidated Balance Sheets at January 28, 2022 and January 29, 2021	39
Consolidated Statements of Shareholders' (Deficit)/Equity for each of the three fiscal years in the period ended January 28, 2022	40
Consolidated Statements of Cash Flows for each of the three fiscal years in the period ended January 28, 2022	41
Notes to Consolidated Financial Statements for each of the three fiscal years in the period ended January 28, 2022	42

2. Financial Statement Schedule

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In millions)	Balance at beginning of period	Charges to costs and expenses	Deductions	Balance at end of period
January 28, 2022:				
Reserve for loss on obsolete inventory	$ 182	$ —	$ (14) [1]	$ 168
Reserve for inventory shrinkage	365	845	(796) [2]	414
Reserve for sales returns	252	—	(7)	245
Deferred tax valuation allowance	601	—	(11) [3]	590
Self-insurance liabilities	1,093	1,759	(1,736) [4]	1,116
Reserve for exit activities	69	—	(15)	54
January 29, 2021:				
Reserve for loss on obsolete inventory	$ 105	$ 77 [1]	$ —	$ 182
Reserve for inventory shrinkage	244	907	(786) [2]	365
Reserve for sales returns	194	58	—	252
Deferred tax valuation allowance	561	40 [3]	—	601
Self-insurance liabilities	1,104	1,568	(1,579) [4]	1,093
Reserve for exit activities	88	—	(19)	69
January 31, 2020:				
Reserve for loss on obsolete inventory	$ 78	$ 27 [1]	$ —	$ 105
Reserve for inventory shrinkage	222	533	(511) [2]	244
Reserve for sales returns	194	—	—	194
Deferred tax valuation allowance	569	—	(8) [3]	561
Self-insurance liabilities	953	1,711	(1,560) [4]	1,104
Reserve for exit activities	361	—	(273) [5]	88

[1] *Represents the net (decrease)/increase in the required reserve based on the Company's evaluation of obsolete inventory.*

[2] *Represents the actual inventory shrinkage experienced at the time of physical inventories.*

[3] *Represents a (decrease)/increase in the required reserve based on the Company's evaluation of deferred tax assets.*

[4] *Represents claim payments for self-insured claims.*

[5] *Primarily represents the elimination of exit activity reserves related to rent liabilities upon adoption of ASU 2016-02, Leases (Topic 842), as of February 2, 2019.*

Table of Contents

3. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	Restated Charter of Lowe's Companies, Inc.	10-Q	001-07898	3.1	September 1, 2009
3.2	Bylaws of Lowe's Companies, Inc., as amended and restated May 29, 2020.	8-K	001-07898	3.1	June 2, 2020
4.1	Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee.	8-K	001-07898	4.1	December 15, 1995
4.2	Form of Lowe's Companies, Inc.'s 6 7/8% Debentures due February 15, 2028.	8-K	001-07898	4.2	February 20, 1998
4.3	First Supplemental Indenture, dated as of February 23, 1999, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee.	10-K	001-07898	10.13	April 19, 1999
4.4	Form of Lowe's Companies, Inc.'s 6 1/2% Debentures due March 15, 2029.	10-K	001-07898	10.19	April 19, 1999
4.5	Third Supplemental Indenture, dated as of October 6, 2005, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as an exhibit thereto a form of Lowe's Companies, Inc.'s 5.5% Notes maturing in October 2035.	10-K	001-07898	4.5	April 3, 2007
4.6	Fourth Supplemental Indenture, dated as of October 10, 2006, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as an exhibit thereto a form of Lowe's Companies, Inc.'s 5.80% Notes maturing in October 2036.	S-3 (POSASR)	333-137750	4.5	October 10, 2006
4.7	Fifth Supplemental Indenture, dated as of September 11, 2007, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 6.10% Notes maturing in September 2017 and a	8-K	001-07898	4.1	September 11, 2007

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
4.8	Sixth Supplemental Indenture, dated as of April 15, 2010, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 4.625% Notes maturing in April 2020 and a form of Lowe's Companies, Inc.'s 5.800% Notes maturing in April 2040.	8-K	001-07898	4.1	April 15, 2010
4.9	Eighth Supplemental Indenture, dated as of November 23, 2011, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 3.800% Notes maturing in November 2021 and a form of Lowe's Companies, Inc.'s 5.125% Notes maturing in November 2041.	8-K	001-07898	4.1	November 23, 2011
4.10	Ninth Supplemental Indenture, dated as of April 23, 2012, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 1.625% Notes maturing in April 2017, a form of Lowe's Companies, Inc.'s 3.120% Notes maturing in April 2022 and a form of Lowe's Companies, Inc.'s 4.650% Notes maturing in April 2042.	8-K	001-07898	4.1	April 23, 2012
4.11	Tenth Supplemental Indenture, dated as of September 11, 2013, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 3.875% Notes maturing in September 2023 and a form of Lowe's Companies, Inc.'s 5.000% Notes maturing in September 2043.	8-K	001-07898	4.1	September 11, 2013
4.12	Eleventh Supplemental Indenture, dated as of September 10, 2014, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's	8-K	001-07898	4.1	September 10, 2014

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
4.13	Twelfth Supplemental Indenture, dated as of September 16, 2015, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s Floating Rate Notes maturing in September 2018, a form of Lowe's Companies, Inc.'s 3.375% Notes maturing in September 2025 and a form of Lowe's Companies, Inc.'s 4.375% Notes maturing in September 2045.	8-K	001-07898	4.1	September 16, 2015
4.14	Thirteenth Supplemental Indenture, dated as of April 20, 2016, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s Floating Rate Notes maturing in April 2019, a form of Lowe's Companies, Inc.'s 1.15% Notes maturing in April 2019, a form of Lowe's Companies, Inc.'s 2.50% Notes maturing in April 2026 and a form of Lowe's Companies, Inc.'s 3.70% Notes maturing in April 2046.	8-K	001-07898	4.1	April 20, 2016
4.15	Fourteenth Supplemental Indenture, dated as of May 3, 2017, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of 3.100% Notes due May 3, 2027 and a form of 4.050% Notes due May 3, 2047.	8-K	001-07898	4.1	May 3, 2017
4.16	Fifteenth Supplemental Indenture, dated as of April 5, 2019, between Lowe's Companies, Inc. and U.S. Bank National Association (as successor trustee), including as exhibits thereto a form of 3.650% Notes due April 5, 2029 and a form of 4.550% Notes due April 5, 2049.	8-K	001-07898	4.2	April 5, 2019
4.17	Sixteenth Supplemental Indenture, dated as of March 26, 2020, between Lowe's Companies, Inc. and U.S. Bank National Association (as successor trustee), including as exhibits thereto a form of 4.000% Notes due April 15, 2025, a form of 4.500% Notes	8-K	001-07898	4.2	March 27, 2020

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
4.18	Seventeenth Supplemental Indenture, dated as of October 22, 2020, between Lowe's Companies, Inc. and U.S. Bank National Association (as successor trustee), including as exhibits thereto a form of 1.300% Notes due April 15, 2028, a form of 1.700% Notes due October 15, 2030 and a form of 3.000% Notes due October 15, 2050.	8-K	001-07898	4.2	October 22, 2020
4.19	Eighteenth Supplemental Indenture, dated as of March 31, 2021, between Lowe's Companies, Inc. and U.S. Bank National Association (as successor trustee), including as exhibits thereto a form of 2.625% Notes due April 1, 2031 and a form of 3.500% Notes due April 1, 2051.	8-K	001-07898	4.2	March 31, 2021
4.20	Nineteenth Supplemental Indenture, dated as of September 20, 2021, between Lowe's Companies, Inc. and U.S. Bank Association (as successor trustee), including as exhibits thereto a form of 1.700% Notes due September 15, 2028 and a form of 2.800% Notes due September 15, 2041.	8-K	001-07898	4.2	September 20, 2021
4.21	Credit Agreement, dated as of March 23, 2020, by and among Lowe's Companies, Inc., Bank of America, N.A., as administrative agent, swing-line lender, and a letter of credit issuer, U.S. Bank National Association, as syndication agent and a letter of credit issuer, Citibank, N.A., Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., and Wells Fargo Bank, National Association, as co-documentation agents, and the other lenders party thereto.	8-K	001-07898	10.1	March 24, 2020
4.22	Amendment No. 1 to Credit Agreement, dated as of December 14, 2021, by and among Lowe's Companies, Inc., Bank of America, N.A., as administrative agent, swing line lender and a letter of credit issuer, and the other lenders party thereto.	8-K	001-07898	10.2	December 15, 2021
4.23	364-day Term Loan Facility, dated as of April 22, 2021, by and between Lowe's Companies, Inc. and Wells Fargo Bank, National Association.	8-K	001-07898	10.1	April 27, 2021

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
4.24	Third Amended and Restated Credit Agreement, dated as of December 14, 2021, by and among Lowe's Companies, Inc., Bank of America, N.A., as administrative agent, swing line lender and a letter of credit issuer, U.S. Bank National Association and Wells Fargo Bank. National Association, as co-syndication agents and letter of credit issuers, and Citibank, N.A., Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A. and Barclays Bank PLC, as co-documentation agents, and the other lenders party thereto.	8-K	001-07898	10.1	December 15, 2021
4.25	Description of Securities.	10-K	001-07898	4.23	March 22, 2021
10.1	Lowe's Companies, Inc. Directors' Deferred Compensation Plan, as amended and restated May 28, 2021.*	10-Q	001-07898	10.1	August 26, 2021
10.2	Lowe's Companies, Inc. 2020 Employee Stock Purchase Plan.*	S-8	333-249586	99.1	October 21, 2020
10.3	Lowe's Companies Benefit Restoration Plan, as amended and restated as of January 1, 2008.*	10-Q	001-07898	10.2	December 12, 2007
10.4	Amendment No. 1 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.10	March 29, 2011
10.5	Amendment No. 2 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.11	March 29, 2011
10.6	Amendment No. 3 to the Lowe's Companies Benefit Restoration Plan.*	10-Q	001-07898	10.1	December 1, 2011
10.7	Amendment No. 4 to the Lowe's Companies Benefit Restoration Plan.*	10-Q	001-07898	10.1	September 4, 2012
10.8	Amendment No. 5 to the Lowe's Companies Benefit Restoration Plan.*	10-Q	001-07898	10.1	December 3, 2013
10.9	Amendment No. 6 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.1	March 31, 2015
10.10	Amendment No. 7 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.16	April 4, 2017
10.11	Lowe's Companies Cash Deferral Plan.*	10-Q	001-07898	10.1	June 4, 2004

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
10.14	Form of Lowe's Companies, Inc. Deferred Stock Unit Agreement for Outside Directors.*	10-Q	001-07898	10.1	September 3, 2019
10.15	Lowe's Companies, Inc. 2006 Long Term Incentive Plan, as amended and restated effective as of January 30, 2020.*	10-K	001-07898	10.22	March 23, 2020
10.16	Lowe's Companies, Inc. 2016 Annual Incentive Plan, effective as of February 1, 2016.*	DEF 14A	001-07898	Appendix C	April 11, 2016
10.17	Offer Letter between Marvin R. Ellison and Lowe's Companies, Inc. entered into on May 21, 2018.*	8-K	001-07898	10.1	May 22, 2018
10.18	Offer Letter between Lowe's Companies, Inc. and Joseph M. McFarland III entered into on July 18, 2018.*	10-Q	001-07898	10.2	September 4, 2018
10.19	Offer Letter between Lowe's Companies, Inc. and David M. Denton entered into on August 20, 2018.*	10-Q	001-07898	10.3	September 4, 2018
10.20	Offer Letter between Lowe's Companies, Inc. and William P. Boltz entered into on July 15, 2018.*‡				
10.21	Offer Letter between Lowe's Companies, Inc. and Seemantini Godbole entered into on October 30, 2018.*‡				
10.22	Offer Letter between Lowe's Companies, Inc. and Marisa F. Thalberg entered into on December 31, 2019.*‡				
10.23	Form of Lowe's Companies, Inc. Restricted Stock Award Agreement for Tier I Officers.*	10-K	001-07898	10.28	March 23, 2020
10.24	Form of Lowe's Companies, Inc. Performance Share Unit Award Agreement for Tier I Officers.*	10-Q	001-07898	10.2	June 3, 2019
10.25	Form of Lowe's Companies, Inc. Non-Qualified Stock Option Agreement for Tier I Officers.*	10-Q	001-07898	10.6	June 3, 2019
10.26	Form of Lowe's Companies, Inc. Change in Control Agreement for Tier I Senior Officers.*	10-Q	001-07898	10.7	September 4, 2018
10.27	Form of Lowe's Companies, Inc. Performance Share Unit Award Agreement.*	10-Q	001-07898	10.1	November 25, 2020

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
10.29	Lowe's Companies, Inc. Severance Plan for Senior Officers as amended and restated May 29, 2020.*	10-Q	001-07898	10.1	August 26, 2020
10.30	Form of Lowe's Companies, Inc. Director Indemnification Agreement.*	10-Q	001-07898	10.6	December 6, 2018
10.31	Form of Lowe's Companies, Inc. Officer Indemnification Agreement.*	10-K	001-07898	10.43	April 2, 2019
10.32	Offer Letter between Lowe's Companies, Inc. and Dan C. Griggs, Jr. entered into on October 2, 2020.*	10-Q	001-07898	10.2	November 25, 2020
10.33	Offer Letter between Lowe's Companies, Inc. and Dan C. Griggs, Jr. entered into on February 12, 2021.*	10-Q	001-07898	10.1	May 27, 2021
10.34	Form of Lowe's Companies, Inc. 2021 Restricted Stock Award Agreement.*	10-Q	001-07898	10.4	May 27, 2021
10.35	Form of Lowe's Companies, Inc. 2021 Performance Share Unit Award Agreement.*	10-Q	001-07898	10.2	May 27, 2021
10.36	Form of Lowe's Companies, Inc. 2021 Non-Qualified Stock Option Agreement.*	10-Q	001-07898	10.3	May 27, 2021
21.1	List of Subsidiaries.‡				
23.1	Consent of Deloitte & Touche LLP.‡				
24.1	Power of Attorney (included on the Signatures page of this Annual Report on Form 10-K).‡				
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡				
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡				
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the				

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
99.1	Twelfth Amendment to the Lowe's 401(k) Plan, executed on December 16, 2021 (filed to include this amendment as an exhibit to the Registration Statement on Form S-8, Registration No. 033-29772).‡				
101.INS	XBRL Instance Document – the XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.‡				
101.SCH	XBRL Taxonomy Extension Schema Document.‡				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.‡				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.‡				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.‡				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.‡				
104	Cover Page Interactive Data File (formatted as Inline XBRL document and included in Exhibit 101).‡				

* Indicates a management contract or compensatory plan or arrangement.
‡ Filed herewith.
† Furnished herewith.

Item 16 – Form 10-K Summary

None.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	LOWE'S COMPANIES, INC.
	(Registrant)
March 21, 2022	By: /s/ Marvin R. Ellison
Date	Marvin R. Ellison Chairman, President and Chief Executive Officer
March 21, 2022	By: /s/ David M. Denton
Date	David M. Denton Executive Vice President, Chief Financial Officer
March 21, 2022	By: /s/ Dan C. Griggs, Jr.
Date	Dan C. Griggs, Jr. Senior Vice President, Tax and Chief Accounting Officer

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Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Each of the directors of the registrant whose signature appears below hereby appoints David M. Denton, Dan C. Griggs, Jr., and Ross W. McCanless, and each of them severally, as his or her attorney-in-fact to sign in his or her name and behalf, in any and all capacities stated below, and to file with the Securities and Exchange Commission any and all amendments to this report, making such changes in this report as appropriate, and generally to do all such things on their behalf in their capacities as directors and/or officers to enable the registrant to comply with the provisions of the Securities Exchange Act of 1934, and all requirements of the Securities and Exchange Commission.

/s/ Marvin R. Ellison	Chairman, President and Chief Executive Officer	March 21, 2022
Marvin R. Ellison		Date
/s/ Raul Alvarez	Director	March 21, 2022
Raul Alvarez		Date
/s/ David H. Batchelder	Director	March 21, 2022
David H. Batchelder		Date
/s/ Sandra B. Cochran	Director	March 21, 2022
Sandra B. Cochran		Date
/s/ Laurie Z. Douglas	Director	March 21, 2022
Laurie Z. Douglas		Date
/s/ Richard W. Dreiling	Director	March 21, 2022
Richard W. Dreiling		Date
/s/ Daniel J. Heinrich	Director	March 21, 2022
Daniel J. Heinrich		Date
/s/ Brian C. Rogers	Director	March 21, 2022
Brian C. Rogers		Date
/s/ Bertram L. Scott	Director	March 21, 2022
Bertram L. Scott		Date
/s/ Mary Beth West	Director	March 21, 2022
Mary Beth West		Date

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 29, 2021

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to _________

Commission file number 1-7898

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LOWE'S COMPANIES, INC.

(Exact name of registrant as specified in its charter)

North Carolina	**56-0578072**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 Lowes Blvd., Mooresville, North Carolina	**28117**
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	**(704) 758-1000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)
Common Stock, par value $0.50 per share	LOW

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

As of July 31, 2020, the last business day of the Company's most recent second quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $112.5 billion based on the closing sale price as reported on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT 3/19/2021
Common Stock, $0.50 par value	717,256,852

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Portions of the Proxy Statement for Lowe's 2021 Annual Meeting of Shareholders	Part III

LOWE’S COMPANIES, INC.
- TABLE OF CONTENTS -

			Page No.
Disclosure Regarding Forward-Looking Statements			ii
PART I			
	Item 1.	Business	1
	Item 1A.	Risk Factors	7
	Item 1B.	Unresolved Staff Comments	14
	Item 2.	Properties	14
	Item 3.	Legal Proceedings	14
	Item 4.	Mine Safety Disclosures	14
		Information About Our Executive Officers	15
PART II			
	Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	16
	Item 6.	Selected Financial Data	17
	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
	Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	31
	Item 8.	Financial Statements and Supplementary Data	32
	Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	68
	Item 9A.	Controls and Procedures	68
	Item 9B.	Other Information	68
PART III			
	Item 10.	Directors, Executive Officers and Corporate Governance	69
	Item 11.	Executive Compensation	69
	Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	69
	Item 13.	Certain Relationships and Related Transactions, and Director Independence	69
	Item 14.	Principal Accountant Fees and Services	69
PART IV			
	Item 15.	Exhibits and Financial Statement Schedules	70
	Item 16.	Form 10-K Summary	80

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements including words such as "believe", "expect", "anticipate", "plan", "desire", "project", "estimate", "intend", "will", "should", "could", "would", "may", "strategy", "potential", "opportunity", "outlook", "scenario", "guidance" and similar expressions are forward-looking statements. Forward-looking statements involve, among other things, expectations, projections, and assumptions about future financial and operating results, objectives, business outlook, priorities, sales growth, shareholder value, capital expenditures, cash flows, the housing market, the home improvement industry, demand for products and services, share repurchases, Lowe's strategic initiatives, including those relating to acquisitions and dispositions and the impact of such transactions on our strategic and operational plans and financial results. Such statements involve risks and uncertainties, and we can give no assurance that they will prove to be correct. Actual results may differ materially from those expressed or implied in such statements.

For a detailed description of the risks and uncertainties that we are exposed to, you should read Item 1A, "Risk Factors" included elsewhere in this Annual Report. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update these statements other than as required by law.

Part I

Item 1 - Business

General Information

Lowe's Companies, Inc. and subsidiaries (the Company or Lowe's) is a Fortune® 50 company and the world's second largest home improvement retailer. As of January 29, 2021, Lowe's operated 1,974 home improvement and hardware stores, representing approximately 208 million square feet of retail selling space. These operations included 1,734 stores located across 50 U.S. states, as well as 240 stores in Canada.

The Canadian stores include RONA inc. (RONA), which was acquired by Lowe's in 2016. RONA operates 179 stores in Canada as of January 29, 2021, as well as services approximately 231 dealer-owned stores. The RONA stores represent complementary store formats operating under various banners.

Lowe's was incorporated in North Carolina in 1952 and has been publicly held since 1961. The Company's common stock is listed on the New York Stock Exchange - ticker symbol "LOW".

See Item 6, "Selected Financial Data", of this Annual Report on Form 10-K (Annual Report), for historical revenues, profits and identifiable assets. For additional information about the Company's performance and financial condition, see also Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this Annual Report.

Customers, Market and Competition

Our Customers

We serve homeowners, renters, and professional customers (Pro customers). Individual homeowners and renters complete a wide array of projects and vary along the spectrum of do-it-yourself (DIY) and do-it-for-me (DIFM). The Pro customer consists of two broad categories: construction trades and maintenance, repair & operations.

Our Market

The U.S. market remains our predominant market, accounting for approximately 94% of consolidated sales for the fiscal year ended January 29, 2021. We are among the many businesses, including home centers, paint stores, hardware stores, lumber yards and garden centers, whose revenues are included in the Building Material and Garden Equipment and Supplies Dealers Subsector (444) of the Retail Trade Sector of the North American Industry Classification System (NAICS), the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

NAICS 444 represents roughly half of what we consider the total U.S. market for our products and services. The broader market in which Lowe's operates includes home-related sales through a variety of companies beyond those in NAICS 444. These consist of other companies in the retail sector, including mass retailers, home goods specialty stores, and online retailers, as well as wholesalers that provide home-related products and services to homeowners, businesses, and the government.

There are many variables that affect consumer demand for the home improvement products and services Lowe's offers. Key indicators we monitor include real disposable personal income, employment, home prices, housing turnover, and consumer mobility. We also monitor demographic and societal trends that shape home improvement industry growth.

Our Competition

The home improvement industry includes a broad competitive landscape that continues to evolve. Lowe's competes with national and international home improvement warehouse chains and lumber yards in most of the markets we serve. We also compete with traditional hardware, plumbing, electrical, home supply retailers, and maintenance and repair organizations. In addition, we compete with general merchandise retailers, warehouse clubs, online retailers, other specialty retailers, providers of equipment and tool rental, as well as service providers that install home improvement products. Location of stores, product assortment, product pricing and customer service continue to be key competitive factors in our industry, while the evolution of technology and customer expectations also underscores the importance of omni-channel capabilities as a competitive factor. To ensure ongoing competitiveness, Lowe’s focuses on delivering the right home improvement products, with the best service and value, across every channel and community we serve. See further discussion of competition in Item 1A, "Risk Factors", of this Annual Report.

Products and Services

Our Products

Product Selection
To meet customers' varying needs, we offer a complete line of products for construction, maintenance, repair, remodeling, and decorating. We offer home improvement products in the following categories: Appliances, Seasonal & Outdoor Living, Lawn & Garden, Lumber, Kitchens & Bath, Tools, Paint, Millwork, Hardware, Flooring, Rough Plumbing, Building Materials, Décor, Lighting, and Electrical. A typical Lowe's-branded home improvement store stocks approximately 40,000 items, with over two million additional items available through our online selling channels. See Note 17 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data", of this Annual Report for historical revenues by product category for each of the last three fiscal years.

We are committed to offering a wide selection of national brand-name merchandise complemented by our selection of private brands. In addition, we are dedicated to ensuring the products we sell are sourced in a socially responsible, efficient, and cost-effective manner.

National Brand-Name Merchandise
In many product categories, customers look for a familiar and trusted national brand to instill confidence in their purchase. Lowe's home improvement stores carry a wide selection of national brand-name merchandise such as Whirlpool®, GE®, LG®, and Samsung® appliances, Stainmaster® carpets, Sherwin-Williams® and Valspar® paints and stains, Pella® windows and doors, Pergo® hardwood flooring, CRAFTSMAN® and DeWALT® power tools, Metabo® pneumatic tools, Weber® and Char-Broil® grills, Owens Corning® insulation and roofing, GAF® roofing, James Hardie® fiber cement siding, Marshalltown® masonry tools and concrete, Husqvarna®, EGO® and SKIL® outdoor power equipment, John Deere® riding lawn mowers, Werner® ladders, Quoizel® lighting, Nest® products, SharkBite® plumbing products, A. O. Smith® water heaters, Norton® abrasives, Simpson Strong-Tie® connectors, Eaton® electrical products, and many more. Our merchandise selection provides the retail and Pro customer a one-stop shop for a wide variety of national brand-name merchandise needed to complete home improvement, repair, maintenance, or construction projects.

Private Brands
Private brands are an important element of our overall portfolio, helping to increase customer loyalty, drive sales, and expand differentiation. We have a strong private brand presence across core categories, including some of our most valuable brands such as: Kobalt® tools; allen+roth® and Style Selections® home décor products; Severe Weather® pressure treated lumber; Project Source® high-value project completers; Holiday Living® seasonal products; Harbor Breeze® ceiling fans; Sta-Green® lawn and garden products; Moxie® cleaning products; Reliabilt® doors, windows, and hardware; and Utilitech® electrical and utility products.

Supply Chain
We source our products from vendors worldwide and believe that alternative and competitive suppliers are available for virtually all of our products. Whenever possible, we purchase directly from manufacturers to provide savings for customers and improve our gross margin.

To efficiently move product from our vendors to our stores and maintain in-stock levels, we own and operate distribution facilities that enable products to be received from vendors, stored and picked, or cross-docked, and then shipped to our retail locations or directly to customers. These facilities include 15 regional distribution centers (RDC) and 15 flatbed distribution centers (FDC) in the United States. The FDCs distribute merchandise that requires special handling due to size or type of packaging such as lumber, boards, panel products, pipe, siding, ladders, and building materials. On average, each RDC and FDC serves approximately 115 stores. We also own and operate seven distribution centers, including four lumber yards, to serve our Canadian market.

In addition to the RDCs and FDCs, we also operate coastal holding and transload facilities to handle import product, bulk distribution centers (BDC) to handle appliances and other big and bulky product, cross-dock delivery terminals

(XDT) to fulfill final mile box truck deliveries, and fulfillment centers (FC) focused on parcel post eligible products. In fiscal 2020, we enhanced our distribution network by adding thirteen XDTs, two BDCs, and one FC.

Collectively, our facilities enable our import and e-commerce products to get to their destination as efficiently as possible. Most parcel-eligible items can be ordered by a customer and delivered within two business days at standard shipping rates.

In fiscal 2020, approximately 67% of the total dollar amount of merchandise we purchased flowed through our distribution network, while the remaining portion was shipped directly to our stores from vendors.

Our Services

Installed Sales
We offer installation services through independent contractors in many of our product categories, with Appliances, Flooring, Kitchens & Bath, Lumber, Building Materials, and Millwork accounting for the majority of installed sales. Our Installed Sales model, which separates selling and project administration tasks, allows our sales associates to focus on project selling, while project managers ensure that the details related to installing the products are efficiently executed. Installed Sales, which includes both product and labor, accounted for approximately 5% of total sales in fiscal 2020.

Extended Protection Plans and Repair Services
We offer extended protection plans for various products within the Appliances, Kitchens & Bath, Décor, Millwork, Rough Plumbing, Electrical, Seasonal & Outdoor Living, Tools, and Hardware categories. These protection plans provide customers with product protection that enhances or extends coverage offered by the manufacturer's warranty and provides additional customer-friendly benefits that go beyond the scope of a manufacturer's warranty. The protection plans provide in-warranty benefits and out-of-warranty repair services for major appliances, outdoor power equipment, tools, grills, fireplaces, air conditioners, water heaters, and other eligible products through our stores or in the home through the Lowe's Authorized Service Repair Network. We offer replacement plans for products in most of these categories when priced below $300, or otherwise specified category-specific price points. Our contact center takes customers' calls, assesses the problems, and facilitates resolutions, making after-sales service easier for our customers by managing the entire process.

Selling Channels

We are continuing to enhance our omni-channel capabilities, which allows our customers to move from channel to channel with simple and seamless transitions even within the same transaction. For example, for many projects, more than half of our customers conduct research online before making an in-store purchase. For purchases made on Lowes.com, customers may pick up their purchase in-store at the customer service desk, curbside pick-up, or touchless lockers; have their purchase delivered from a store; or have their purchase parcel shipped. In addition, flexible fulfillment options are available for in-store purchases and those made through the contact center. Regardless of the channels through which customers choose to engage with us, we strive to provide them with a seamless experience across channels and an endless aisle of products, enabled by our flexible fulfillment capabilities. Our ability to sell products in-store, online, on-site, or through our contact centers speaks to our ability to leverage our existing infrastructure with the omni-channel capabilities we continue to introduce.

In-Store
Our 1,795 Lowe's-branded home improvement stores, inclusive of 1,734 in the U.S. and 61 in Canada, are generally open seven days per week and average approximately 112,000 square feet of retail selling space, plus approximately 32,000 square feet of outdoor garden center selling space. The 179 RONA stores operate under various complementary store formats that address target customers and occasions. Our home improvement stores in the U.S. and Canada offer similar products and services, with certain variations based on localization. We continue to develop and implement tools to make our sales associates more efficient and to integrate our order management and fulfillment processes. Our home improvement stores have Wi-Fi capabilities that provide customers with internet access, making information available quickly to further simplify the shopping experience.

Online
Through our websites and mobile applications, we seek to empower consumers by providing a 24/7 shopping experience, online product information, customer ratings and reviews, online buying guides and how-to videos and other information. These tools help consumers make more informed purchasing decisions and give them increased confidence to undertake home improvement projects. We enable customers to choose from a variety of fulfillment

options, including buying online and picking up in-store, as well as delivery or parcel shipment to their homes or businesses.

On-Site

We have on-site specialists available for retail and Pro customers to assist them in selecting products and services for their projects. Our Pro Sales Managers meet with Pro customers at their place of business or on a job site and leverage nearby stores and our distribution network to ensure we meet customer needs for products and resources. In addition, our Project Specialist

Exteriors (PSE) program is available in a majority of U.S. Lowe's home improvement stores to discuss exterior projects such as roofing, siding, fencing, and windows, whose characteristics lend themselves to an in-home consultative sales approach.

Contact Centers
Lowe's operates three contact centers which are located in Wilkesboro, NC; Albuquerque, NM; and Indianapolis, IN. These contact centers help Lowe's enable an omni-channel customer experience by providing the ability to tender sales, coordinate deliveries, manage after-sale installations, facilitate repair services for Appliances and Outdoor Power Equipment, and answer general customer questions via phone, mail, e-mail, live chat, and social media.

Human Capital

When it comes to recruiting and retaining top talent, Lowe's strives to be an employer of choice. We are committed to creating valuable career opportunities for our associates, supporting them and the communities where they live, and cultivating a culture that invites and encourages diverse opinions and ideas. We enable our associates to build meaningful careers and unlock their potential in an inclusive workplace as we work together to deliver the right home improvement products, with the best service and value, across every channel and community we serve.

Our People
As of January 29, 2021, Lowe's employed approximately 220,000 full-time associates and 120,000 part-time associates, primarily in the United States and Canada. In fiscal 2020, we expanded our workforce, hiring associates in part-time, seasonal and full-time positions to fulfill the seasonal demand of our Spring season, increased demand during the COVID-19 pandemic as customers focused on home improvement projects, and a nationwide effort to modify our store layout.

Certain employees in Canada are subject to collective bargaining agreements. No other employees are subject to collective bargaining agreements. Management considers its relations with employees to be good.

Diversity and Inclusion
We believe that, by building diverse and inclusive teams, we drive better ideas, positive business results, and improved service through a deeper connection with our customers. During fiscal 2019, we kicked-off a multi-year program to integrate diversity and inclusion initiatives into our corporate strategy across three areas: talent, culture and business. To foster an inclusive culture, we launched seven business resource employee groups sponsored by our executive leadership team in 2019 and continued to support those groups virtually in 2020.

Talent Development
We are committed to securing top talent and providing ongoing training to facilitate meaningful careers at Lowe's. We offer a variety of leadership and development programs that develop diverse and other high potential associates. We also have certification programs available to our store and technology associates to further develop their skills and knowledge base. Additionally, through our partnership with Guild Education, Lowe's Track to the Trades program provides tuition reimbursement to our associates, encouraging them to complete apprentice certifications in carpentry, plumbing, electrical, heat, air ventilation and cooling (HVAC) or appliance repair.

We have also seen great strides in our internal culture. This year, we saw higher participation and engagement scores in our annual Building Engagement and Success Together (BEST) associate engagement survey which helps senior management understand from our associates what Lowe's is doing well and where we have opportunities for improvement.

Total Rewards and Wellness
In the spirit of building the best team and providing them with the best care, we are proud of the financial and well-being benefits we offer to our associates. We have a history of investing in our workforce by offering locally competitive salaries and wages. We offer a wide variety of health, welfare and financial benefits to our full-time and part-time associates, including health care and insurance benefits, retirement plans, an employee stock purchase plan, paid time off, leave programs and tuition assistance, among many others.

In response to the novel strain of coronavirus (COVID-19) pandemic, we expanded benefits and wellness programs to increase access to care. We waived co-payments on pharmacy home deliveries, covered 100% of COVID-19 testing and related treatment, expanded telemedicine services to our uninsured associates, shifted onsite clinics to a virtual care model, and launched a new virtual behavioral health app. We also provided 14 days of emergency paid leave for all associates who needed it, and up to four weeks of emergency paid leave for associates at high risk of severe illness from COVID-19.

During fiscal 2020, we provided $915 million in incremental COVID-related financial support for our front-line hourly associates. This included seven discretionary payments of $300 for full-time hourly associates and $150 for part-time hourly associates, as well as a temporary $2 per hour wage increase in the month of April, and emergency paid leave taken by associates who needed it.

Store and Workplace Safety
Our associates and customers drive our success and providing them a safe environment for both working and shopping is essential. We strive to maintain a culture of safety beginning with our leaders modeling the behaviors we want our associates to adopt, and we embed safety into associate onboarding, developmental e-learning and on-the-job training. In fiscal 2020, in response to the COVID-19 pandemic, we implemented numerous safety standards in support of social distancing and enhanced sanitizing and cleaning.

Seasonality and Working Capital

The retail business in general is subject to seasonal influences, and our business is, to some extent, seasonal. Historically, we have realized the highest volume of sales during our second fiscal quarter (May, June, and July) and the lowest volume of sales during our fourth fiscal quarter (November, December, and January). Accordingly, our working capital requirements have historically been greater during our fourth fiscal quarter as we build inventory in anticipation of the spring selling season and as we experience lower fourth fiscal quarter sales volumes. We fund our working capital requirements primarily through cash flows generated from operations, but also with short-term borrowings, as needed. For more detailed information, see the Financial Condition, Liquidity and Capital Resources section in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, of this Annual Report.

Intellectual Property

The name “Lowe’s” is a registered service mark of one of our wholly-owned subsidiaries. We consider this mark and the accompanying name recognition to be valuable to our business. This subsidiary and other wholly-owned subsidiaries own and maintain various additional registered and unregistered trademarks, trade names and service marks, including but not limited to retail names “RONA” and “Reno Depot”, and private brand product names “Kobalt” and “allen+roth”. These subsidiaries also maintain various Internet domain names that are important to our business, and we also own registered and unregistered copyrights. In addition, we maintain patent portfolios related to some of our products and services and seek to patent or otherwise protect certain innovations that we incorporate into our products, services, or business operations.

Government Regulation

We are subject to a wide array of federal, state, and local laws and regulations. We do not currently expect compliance with these laws and regulations to have a material effect on our capital expenditures, results of operations, and competitive position as compared to prior periods.

Sustainability

Lowe’s has a proud history of managing our business responsibly and serving our associates and communities. We believe our commitment to sustainability, including our focus on product sustainability, our associates and communities, and reducing the environmental footprint of our operations will help drive long-term shareholder value. In fiscal 2020, for the second consecutive year, Lowe’s was included in the Dow Jones Sustainability North America Index based on our environmental, social, and governance practices.

Product Sustainability
Lowe’s is committed to promoting sustainable practices throughout our supply chain and providing customers with high quality and safe products. Our products undergo a thorough selection process, beginning with our sourcing decisions. Through collaboration and established management systems, we monitor our suppliers’ practices to secure high-quality products from suppliers who support worker rights and protect the environment. In fiscal 2019, we published a human rights policy and a revised conflict minerals policy to hold all suppliers to our rigorous standards. In fiscal 2020, we also updated our Vendor Code of Conduct with enhanced environmental standards for all

suppliers. In addition, Lowe's upholds a wood sourcing policy that provides that all wood products sold in our stores originate from well-managed, non-endangered forests.

We continue to expand our product portfolio with more environmentally friendly products that provide health and environmental benefits to our customers and communities. We continue to work with local and regional utilities to offer customers assorted rebates for a variety of environmentally efficient products including ENERGY STAR® and WaterSense®.

Reducing our Environmental Footprint
Lowe's is committed to reducing our environmental impact through investments in energy efficiency, renewable energy, environmentally friendly transportation practices, and innovative water and waste management systems. In fiscal 2020, approximately 500 retail locations upgraded to interior light-emitting diode (LED) lighting. We also replaced 100 stores' aging HVAC units with high-efficiency models. Our renewable energy portfolio expanded in 2020 when 100 megawatts of wind energy became operational in central Texas, which will produce the equivalent amount of energy to power all 144 Lowe's stores in Texas.

We are dedicated to promoting sustainable practices in the transportation industry, and we collaborate with the Environmental Protection Agency's SmartWay program to reduce transportation emissions by managing and reducing fuel usage by creating incentives for freight contractors to improve efficiency and are proud to be the first retailer to achieve the Environmental Protection Agency's SmartWay Excellence Award ten years in a row.

Lowe's participates in the Carbon Disclosure Project's (CDP) climate, forestry, and water security questionnaires to benchmark and quantify our environmental practices in an effort to be transparent in our progress and assist in the reduction of our contributions to climate change. In fiscal 2020, Lowe's externally verified its greenhouse gas emissions data to validate our findings and increase confidence in our reporting. At a local level, store waste, including cardboard, broken appliances, wood pallets, and more, are recycled through national and regional partners, and we provide in-store recycling centers for our customers to bring in plastic planter pots, compact fluorescent lamp bulbs, plastic bags, and rechargeable batteries.

For more information about Lowe's sustainability efforts, please visit responsibility.lowes.com.

Investing in Our Communities

Lowe's legacy has long included a deep commitment to the communities where we live and work. In 2020, the global pandemic forced everyone to live and work differently, but we remained committed to supporting the well-being of our associates, customers, and communities, including healthcare providers and first responders.

While adapting our own business to the challenges associated with the COVID-19 pandemic, we witnessed our nonprofit partners' needs growing rapidly as well. At a time when too many individuals already struggle to have a safe and healthy place to live, small businesses faced unprecedented challenges, especially across minority and rural communities. Determined to help make a difference and putting action behind our words of commitment to our communities, Lowe's contributed $109 million in pandemic relief to support our communities, including grants to support minority-owned and rural small businesses.

Lowe's established a small business grant program in partnership with Local Initiatives Support Corporation (LISC). Throughout 2020, the program provided grants of up to $20,000 to rural, minority-owned, and women-owned small business owners to help meet their most immediate needs. For many, that meant being able to pay rent and utilities, meet payroll, pay outstanding debt to vendors, upgrade technology infrastructure, and support other immediate operational costs.

As the COVID-19 global pandemic persisted throughout 2020, Lowe's took seriously our responsibility to provide essential products and services to our customers, government officials, and first responders. In addition to donating essential personal protective equipment (PPE) and products to help keep medical professionals on the front lines safe and healthy, we also empowered all Lowe's stores to donate masks and respirators to local small businesses to help them remain open or reopen under challenging circumstances.

Despite the challenges of the pandemic, we have continued to focus our philanthropy by investing in safe, affordable housing initiatives and workforce development programs that address the skilled trades gap. Lowe's also supports veteran-related initiatives within these two focus areas and continues to assist customers, associates and communities before, during, and after natural disasters by partnering with disaster response and relief organizations.

In addition, we are proud to report that in 2020, every Lowe’s store in the United States and Canada was able to contribute to their communities through the Lowe’s Heroes program. Lowe's is also dedicated to helping our associates in times of need. Our Lowe’s Employee Relief Fund, made possible through associate donations and company matching, supports associates in times of significant, unforeseen financial hardship. In 2020, Lowe’s Employee Relief Fund distributed almost $3 million, helping 2,500 associates in need.

For more information on Lowe's partnerships and latest community improvement projects, visit responsibility.lowes.com.

Available Information

Our Annual Report, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge through our internet website at ir.lowes.com, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The SEC maintains an Internet site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A - Risk Factors

We describe below certain risks that could adversely affect our results of operations, financial condition, business reputation or business prospects. These risk factors may change from time to time and may be amended, supplemented or superseded by updates to the risk factors contained in our future periodic reports on Form 10-K, Form 10-Q and reports on other forms we file with the SEC. All forward-looking statements about our future results of operations or other matters made by us in this Annual Report, in our Annual Report to Lowe's Shareholders and in our subsequently filed reports to the SEC, as well as in our press releases and other public communications, are qualified by the risks described below.

You should read these risk factors in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and our consolidated financial statements and related notes in Item 8. There also may be other factors that we cannot anticipate or that are not described in this Annual Report generally because we do not currently perceive them to be material. Those factors could cause results to differ materially from our expectations. In connection with any investment decision with respect to our securities, you should carefully consider the following risk factors, as well as the other information contained in this report and our other filings with the SEC.

Competitive, Operational and Reputational Risks

We may be unable to adapt our business concept in a rapidly evolving retail environment to address the changing shopping habits, demands and demographics of our customers, or realize the intended benefits of organizational change initiatives.
The home improvement retail environment, like the retail environment generally, is rapidly evolving, and adapting our business concept to respond to our customers' changing shopping habits and demands and their changing demographics is critical to our future success. Our success is dependent on our ability to identify and respond to the economic, social, style and other trends that affect demographic and consumer preferences in a variety of our merchandise categories and service offerings. Customers' expectations about how they wish to research, purchase and receive products and services have also evolved. It is difficult to predict the mix of products and services that our customers will demand. Further, we have a store base that requires maintenance, investment and space reallocation initiatives to deliver the shopping experience that our customers desire. Our capital investments in our stores may not deliver the relevant shopping experience our customers expect. Failure to identify such trends, adapt our business concept, improve and maintain our stores and implement change, growth, and productivity initiatives successfully could negatively affect our relationship with our customers, the demand for the home improvement products and services we sell, the rate of growth of our business, our market share, and results of operations.

We may not be able to realize the benefits of our strategic initiatives focused on omni-channel sales and marketing presence if we fail to deliver the capabilities required to execute on them.
Our interactions with customers have evolved into an omni-channel experience as they increasingly are using computers, tablets, mobile phones and other electronic devices to shop in our stores and online and provide feedback and public commentary about all aspects of our business. Omni-channel retail is quickly evolving, and we must anticipate and meet our customers' expectations and counteract new developments and technology investments by our competitors. Our customer-facing technology systems must appeal to our customers, function as designed and provide a consistent customer experience. The success of our strategic initiatives to adapt our business concept to our

customers' changing shopping habits and demands and changing demographics have required us to and will continue to require us to deliver large, complex programs requiring integrated planning, initiative prioritization and program sequencing. These initiatives have required and will continue to require new competencies in many positions, and our management, employees and contractors have had to and will need to continue to adapt and learn new skills and capabilities. To the extent they are unable or unwilling to make these transformational changes, we may be unable to realize the full benefits of our strategic initiatives and expand our relevant market access. Failure to realize the benefits of amounts we invest in new technologies, products, or services could result in the value of those investments being written down or written off. In addition, to support our strategic initiatives and the related technology investments needed to implement our strategic investments, we must attract and retain a large number of skilled professionals, including technology professionals. The market for these professionals is increasingly competitive. Our results of operations, financial condition or business prospects could also be adversely affected if we fail to provide a consistent experience for our customers, regardless of sales channel, if our technology systems do not meet our customers' expectations, if we are unable to counteract new developments and innovations implemented by our competitors or if we are unable to attract, retain and manage the talent succession of additional personnel at various levels of the Company who have the skills and capabilities we need to implement our strategic initiatives and drive the changes that are essential to successfully adapting our business concept in the rapidly changing retail environment.

We have many competitors who could take sales and market share from us if we fail to execute our merchandising, marketing and distribution strategies effectively, or if they develop a substantially more effective or lower cost means of meeting customer needs, resulting in a negative impact on our business and results of operations.
We operate in a highly competitive market for home improvement products and services and have numerous large and small, direct and indirect competitors. The principal competitive factors in our industry include convenience, customer service, quality and price of merchandise and services, in-stock levels, and merchandise assortment and presentation. We face growing competition from online and omni-channel retailers who have a similar product or service offering. Customers are increasingly able to quickly comparison shop and determine real-time product availability and price using digital tools. Further, online and omni-channel retailers continue to focus on delivery services, as customers are increasingly seeking faster, guaranteed delivery times and low-price or free shipping, and we must make investments to keep up with our customers' evolving shopping preferences. Our ability to be competitive on delivery times, delivery costs, and delivery options depends on many factors, including successful implementation and the continued maintenance of our initiatives related to supply chain transformation. Our failure to respond effectively to competitive pressures and changes in the markets for home improvement products and services could affect our financial performance. Moreover, changes in the promotional pricing and other practices of our competitors, including the effects of competitor liquidation activities, may impact our results.

If we fail to hire, train, manage and retain qualified sales associates and specialists with expanded skill sets or corporate support staff with the capabilities of delivering on strategic objectives, we could lose sales to our competitors, and our labor costs, resulting from operations or the execution of corporate strategies, could be negatively affected.
Our customers, whether they are homeowners, renters or commercial businesses, expect our sales associates and specialists to be well trained and knowledgeable about the products we sell and the home improvement services we provide. We compete with other retailers for many of our sales associates and specialists, and we invest significantly in them with respect to training and development to strive for high engagement. Increasingly, our sales associates and specialists must have expanded skill sets, including, in some instances, the ability to do in-home or telephone sales. We may be unable to attract and retain a sufficiently diverse workforce that can deliver relevant, culturally competent and differentiated experiences for a wide variety of culturally diverse customers. Additionally, in order to deliver on the omni-channel expectations of our customers, we rely on the specialized training and capabilities of corporate support staff, which are broadly sought after by our competitors. If we are unable to hire, train, manage and retain qualified sales associates and specialists, the quality of service we provide to our customers may decrease and our results of operations could be negatively affected. Furthermore, our ability to meet our labor needs, particularly in a competitive labor market, while controlling our costs is subject to a variety of external factors, including prevailing wage rates, the availability of and competition for talent, health care and other benefit costs, our brand image and reputation, changing demographics and the adoption of new or revised legislation or regulations governing immigration, employment, labor relations, minimum wage and health care benefits. Periodically, we are subject to labor organizing efforts, and if we become subject to collective bargaining agreements in the future, it could adversely affect how we operate our business and adversely affect our labor costs and our ability to retain a qualified workforce.

Positively and effectively managing our public image and reputation is critical to our business success, and, if our public image and reputation are damaged, it could negatively impact our relationships with our customers, vendors and store associates and specialists and, consequently, our business and results of operations.
Our public image and reputation are critical to ensuring that our customers shop at Lowe's, our vendors want to do business with Lowe's and our sales associates and specialists want to work for Lowe's. We must continue to manage, preserve and grow Lowe's public image and reputation. Any negative incident can erode trust and confidence quickly, and adverse publicity about us could damage our reputation and brand image, undermine our customers'

confidence, reduce demand for our products and services, affect our relationships with current and future vendors, impact our results of operations and affect our ability to retain and recruit store associates and specialists. The significant expansion in the use of social media over recent years has compounded the potential scope of the negative publicity that could be generated by such negative incidents.

Additionally, our proprietary rights in our trademarks, trade names, service marks, domain names, copyrights, patents, trade secrets and other intellectual property rights are valuable assets of our business. We may not be able to prevent or even discover every instance of unauthorized third party uses of our intellectual property or dilution of our brand names, such as when a third party uses trademarks that are identical or similar to our own. If we are unable to successfully protect our intellectual property rights, our business could be adversely affected.

Failure to achieve and maintain a high level of product and service quality could damage our image with customers and negatively impact our sales, profitability, cash flows and financial condition.
Product and service quality issues could result in a negative impact on customer confidence in Lowe's and our brand image. If our product and service offerings do not meet applicable safety standards or our customers' expectations regarding safety or quality, we could experience lost sales and increased costs and be exposed to legal, financial and reputational risks. Actual, potential or perceived product safety concerns could expose us to litigation, as well as government enforcement action, and result in costly product recalls and other liabilities. As a result, Lowe's reputation as a retailer of high-quality products and services, including both national and Lowe's private brands, could suffer and impact customer loyalty.

Supply Chain and Third-Party Risks

If our domestic or international supply chain or our fulfillment network for our products is ineffective or disrupted for any reason, including the COVID-19 pandemic, or if these operations are subject to trade policy changes or additional tariffs, our results of operations could be adversely affected.
Circumstances surrounding and related to the COVID-19 pandemic have created unprecedented impacts on the global supply chain. We source, stock and sell products from domestic and international vendors, and their ability to reliably and efficiently fulfill our orders is critical to our business success. Impacts related to the COVID-19 pandemic are placing strains on the domestic and international supply chain that may negatively affect the flow or availability of our products. This can result in higher out-of-stock inventory positions due to difficulties in timely obtaining products from the manufacturers and suppliers of our products as well as transportation of those products to our distribution centers and stores, which could negatively affect our business and financial results. Even if we are able to find alternate sources for such products, they may cost more, which could adversely impact our profitability and financial condition.

We source a large number of our products from foreign manufacturers, with China being the dominant import source. The changes in certain tax and trade policies, tariffs and other regulations affecting trade between the U.S. and other countries enacted under the prior U.S. administration increased the cost of our merchandise sourced from outside of the U.S., which represents a large percentage of our overall merchandise. It remains unclear how tax or trade policies, tariffs or trade relations may change under the new U.S. administration, which could adversely affect our business, results of operations, effective income tax rate, liquidity and net income. In addition, other countries may change their business and trade policies in anticipation of or in response to increased import tariffs and other changes in U.S. trade policy and regulations already enacted or that may be enacted in the future. The degree of our exposure is dependent on, among other things, the type of goods, rates imposed, and timing of tariffs. The impact to our business, including net sales and gross margin, will be influenced in part by merchandising and pricing strategies in response to potential cost increases by us and our competitors. While these potential impacts are uncertain, they could have an adverse impact on our financial results.

Financial instability among key vendors, political instability and labor unrest in source countries or elsewhere in our supply chain, changes in the total costs in our supply chain (fuel, labor and currency exchange rates), port labor disputes and security, the outbreak of pandemics, weather-related events, natural disasters, work stoppages, shipping capacity restraints, changes in trade policy, retaliatory trade restrictions imposed by either the United States or a major source country, tariffs or duties, fluctuations in currency exchange rates and transport availability, capacity and costs are beyond our control and could negatively impact our business if they seriously disrupted the movement of products through our supply chain or increased their costs. Additionally, as we add fulfillment capabilities or pursue strategies with different fulfillment requirements, our fulfillment network becomes increasingly complex and operating it becomes more challenging. If our fulfillment network does not operate properly or if a vendor fails to deliver on its commitments, we could experience delays in inventory, increased delivery costs or merchandise out-of-stocks that could lead to lost sales and decreased customer confidence, and adversely affect our results of operations.

Our inability to effectively and efficiently manage and maintain our relationships with selected suppliers of brand name products could negatively impact our business operations and financial results.

We form strategic relationships with selected suppliers to market and develop products under a variety of recognized and respected national and international brand names. We also have relationships with certain suppliers to enable us to sell proprietary products which differentiate us from other retailers. The inability to effectively and efficiently manage and maintain our relationships with these suppliers could negatively impact our business operations and financial results.

Failure of a key vendor or service provider that we cannot quickly replace could disrupt our operations and negatively impact our business, financial condition and results of operations.
We rely upon a number of vendors as the sole or primary source of some of the products we sell. We also rely upon many independent service providers for technology solutions and other services that are important to many aspects of our business. Many of these vendors and service providers have certain products or specialized skills needed to support our business concept and our strategies. If these vendors or service providers discontinue operations or are unable to perform as expected or if we fail to manage them properly or we are unable to replace them quickly, our business could be adversely affected, at least temporarily, until we are able to replace them.

Failures relating to our third-party installer program or by our third-party installers could result in increased operational and legal risks and negatively impact our business, financial condition and results of operations.
We contract with third-party installers to provide installation services to our customers, and, as the general contractor, we are subject to regulatory requirements and risks applicable to general contractors, including certain licensing and permitting requirements, and those relating to the quality and performance of our third-party installers. Our or our third-party installers' failures to effectively manage such requirements and internal processes regarding installation services could result in lost sales, fines and lawsuits, as well as damage to our reputation, which could negatively affect our business.

Technology and Cybersecurity Risks

Our financial performance could be adversely affected if our management information systems are seriously disrupted or we fail to properly maintain, improve, upgrade and expand those systems.
Our efforts to provide an omni-channel experience for our customers include investing in, maintaining and making ongoing improvements of our existing management information systems that support operations, such as sales, inventory replenishment, merchandise ordering, project design and execution, transportation, receipt processing and fulfillment. Our systems are subject to damage or interruption as a result of catastrophic events, power outages, viruses, malicious attacks and telecommunications failures, and as a result we may incur significant expense, data loss as well as an erosion of customer confidence. Additionally, we continually make investments in our systems which may introduce disruption. Our financial performance could be adversely affected if our management information systems are seriously disrupted or we fail to properly maintain, improve, upgrade and expand those systems.

As customer-facing technology systems become an increasingly important part of our omni-channel sales and marketing strategy, the failure of those systems to perform effectively and reliably could keep us from delivering positive customer experiences.
Access to the Internet from computers, tablets, smart phones and other mobile communication devices has empowered our customers and changed the way they shop and how we interact with them. Our websites, including Lowes.com and Lowesforpros.com, are a sales channel for our products, and are also a method of making product, project and other relevant information available to our customers that impacts our in-store sales. Additionally, we have multiple affiliated websites and mobile apps through which we seek to inspire, inform, cross-sell, establish online communities among and otherwise interact with our customers. Performance issues with these customer-facing technology systems, including temporary outages caused by distributed denial of service, ransomware or other cyber-attacks, or a complete failure of one or more of them without a disaster recovery plan that can be quickly implemented, could quickly destroy the positive benefits they provide to our home improvement business and negatively affect our customers' perceptions of Lowe's as a reliable online vendor and source of information about home improvement products and services.

Our business and our reputation could be adversely affected by cybersecurity incidents and the failure to protect customer, employee, vendor or Company information or to comply with evolving regulations relating to our obligation to protect our systems, assets and such information.
Cyber-attacks and tactics designed to gain access to and exploit sensitive information by breaching mission critical systems of large organizations are constantly evolving, and high profile security breaches leading to unauthorized release of sensitive customer information have occurred in recent years with increasing frequency at a number of major U.S. companies, including several large retailers, despite widespread recognition of the cyber-attack threat and improved data protection methods. As with many other retailers, we collect, process, transmit and store certain personal information about our customers, employees and vendors, as well as confidential, sensitive, proprietary and business, personal and payment card information. Additionally, we use third-party service providers for certain

services, such as authentication, content delivery, back-office support and other functions, and we provide such third-party service providers with personal and other confidential information necessary for the services concerned. Despite our continued vigilance and investment in information security, we, like others in our industry, are subject to the risk that unauthorized parties will attempt to gain access to our systems or our information through fraud or other means of deceiving our associates, third party providers, or vendors, and we or our third-party service providers cannot guarantee that we or they are able to adequately anticipate or prevent a future breach in our or their systems that results in the unauthorized access to, destruction, misuse or release of personal information or other sensitive data. It can be difficult to preempt or detect ever-evolving forms of cyber-attacks. If a ransomware attack occurs, it is possible that we could be prevented from accessing our own data. Our information security or our service providers' information security may also be compromised because of human errors, including by employees, or system errors. Our systems and our service providers' systems are additionally vulnerable to a number of other causes, such as critical infrastructure outages, computer viruses, technology system failures, catastrophic events or cyber-attacks, including the use of malicious codes, worms, phishing and ransomware. In the event that our systems are breached or damaged for any reason, we may also suffer loss or unavailability of data and interruptions to our business operations while such breach or damage is being remedied. Should these events occur, the unauthorized disclosure, loss or unavailability of data and disruption to our business may have a material adverse effect on our reputation, drive existing and potential customers away and lead to financial losses from remedial actions, or potential liability, including possible litigation and punitive damages. A security breach resulting in the unauthorized release of data from our information systems or our third-party service providers' information systems could also materially increase the costs we already incur to protect against such risks and require dedication of substantial resources to manage the aftermath of such a breach. Data privacy and cybersecurity laws in the United States and internationally are constantly changing, and the implementation of these laws has become more complex.

In the United States alone, we may be subject to regulation at both the federal and state level. For example, the California Consumer Privacy Act of 2018 grants California consumers certain rights over their personal information and imposes stringent requirements on the collection, use and sharing of "personal information" of California consumers. Other U.S. states are proposing similar laws related to the protection of personal information and the U.S. federal government is also considering federal privacy legislation. In order to maintain our compliance with such laws as they come to fruition, we may sustain increased costs in order to continually evaluate our policies and processes and adapt to new requirements that are or become applicable to us. As the regulatory environment relating to retailers' and other companies' obligation to protect personal information becomes stricter, a material failure on our part to comply with applicable regulations could subject us to fines, other regulatory sanctions or government investigation, and potentially to lawsuits brought by private individuals, regulators or states' attorney general.

We are subject to payments-related risks that could increase our operating costs, expose us to fraud, subject us to potential liability and potentially disrupt our business.
We accept payments using a variety of methods, including credit cards, debit cards, credit accounts, our private label and co-branded credit cards, gift cards, consumer invoicing and physical bank checks, and we may offer different payment options over time. These payment options subject us to many compliance requirements, including, but not limited to, compliance with payment card association operating rules, including data security rules, certification requirements, rules governing electronic funds transfers and Payment Card Industry Data Security Standards. They also subject us to potential fraud by criminal elements seeking to discover and take advantage of security vulnerabilities that may exist in some of these payment systems. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, electronic checks, gift cards and promotional financing, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected.

Investment-Related Risks

Our strategic transactions involve risks, and we may not realize the expected benefits because of numerous uncertainties and risks.
We regularly consider and enter into strategic transactions, including mergers, acquisitions, joint ventures, investments and other growth, market and geographic expansion strategies, with the expectation that these transactions will result in increases in sales, cost savings, synergies and other various benefits. Our ability to deliver the expected benefits from any strategic transaction is subject to numerous uncertainties and risks, including our ability to integrate personnel, labor models, financial, IT and other systems successfully; disruption of our ongoing business and distraction of management; hiring additional management and other critical personnel; and increasing

the scope, geographic diversity and complexity of our operations. Effective internal controls are necessary to provide reliable and accurate financial reports, and the integration of businesses may create complexity in our financial systems and internal controls and make them more difficult to manage. Integration of businesses into our internal control system could cause us to fail to meet our financial reporting obligations. Additionally, any impairment of goodwill or other assets acquired or divested in a strategic transaction or charges to earnings associated with any strategic transaction, may materially reduce our earnings. Our shareholders may react unfavorably to our strategic transactions. We may not realize any anticipated benefits from such transactions, we may be exposed to additional liabilities of any acquired business or joint venture, and we may be exposed to litigation in connection with the strategic transaction. Further, we may finance these strategic transactions by incurring additional debt, which could increase leverage or impact our ability to access capital in the future.

Operating internationally presents unique challenges, including some that have required us to adapt our store operations, merchandising, marketing and distribution functions to serve customers in Canada. Our business and results of operations could be negatively affected if we are unable to effectively address these challenges.
We operate stores in Canada. Expanding and operating internationally presents unique challenges that may increase the anticipated costs and risks of operation and expansion and slow the anticipated rate of expansion. Our future operating results in Canada or in other countries or regions in which we may operate in the future could be negatively affected by a variety of factors, including unfavorable political or economic factors, adverse tax consequences, volatility in foreign currency exchange rates, increased difficulty in enforcing intellectual property rights, costs and difficulties of managing international operations, challenges with identifying and contracting with local suppliers and other risks created as a result of differences in culture, laws and regulations. These factors could restrict our ability to operate our international businesses profitably and therefore have a negative impact on our results of operations and financial position. In addition, our reported results of operations and financial position could also be negatively affected by exchange rates when the activities and balances of our foreign operations are translated into U.S. dollars for financial reporting purposes.

Legal, Regulatory and Other External Risks

The COVID-19 pandemic has affected and is expected to continue to affect our business, results of operations and financial condition.
The effects of the COVID-19 pandemic are highly unpredictable and volatile, and have affected and are expected to continue to affect our business operations, demand for our products and services, our costs of doing business, availability of labor, access to inventory, supply chain operations, our ability to predict future performance, exposure to litigation, and our financial condition, among other things. There is considerable uncertainty regarding the extent to which COVID-19 will continue to spread and the extent and duration of measures to try to contain the virus, such as travel restrictions, quarantines, “shelter-in-place” orders and various other restrictive measures.

At the onset of the pandemic, we implemented a number of measures to facilitate a safer store environment. In addition, we provided expanded associate benefits to provide additional paid time off, special payments to hourly associates, temporary wage increases and other benefits. These measures have increased our operating expenses. Additionally, in response to the uncertainties surrounding the COVID-19 pandemic, we took proactive steps to further enhance our liquidity position by temporarily suspending our share repurchase program, which was later reinstated; increasing the capacity of our revolving credit facilities and the associated commercial paper program; as well as issuing senior notes in March 2020.

The extent to which the COVID-19 pandemic further impacts our business, results of operations and financial condition will depend on numerous evolving factors which are uncertain and cannot be predicted, including:

- the duration and scope of the pandemic and associated disruptions, including whether there are additional “waves” or other continued periods of increases or spikes in the number of COVID-19 cases, future mutations or related strains of the virus in areas where we or our suppliers operate;
- the effects of current and future governmental and public responses to changing conditions;
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates and recessionary pressures;
- the financial condition and purchasing power of our customers;
- the ability of the third parties on which we rely, including our suppliers and other external business partners, to meet their obligations to the Company, or significant disruptions in their ability to do so which may be caused by their own financial or operational difficulties;

- unknown consequences on our business performance and strategic initiatives stemming from the substantial investment of time and other resources to the pandemic response;
- the availability of, and prevalence of access to, effective medical treatments and vaccines for COVID-19;
- volatility in the credit and financial markets during and after the pandemic;
- the pace of recovery when the pandemic subsides; and
- the long-term impact of the pandemic on our business, including consumer behaviors.

Any of the foregoing factors, or other effects of the COVID-19 pandemic or another pandemic, may result in adverse impacts to our business, results of operations and financial condition. The impacts of the COVID-19 pandemic may also exacerbate other risks discussed herein.

Our sales are dependent upon the health and stability of the general economy. Adverse changes in economic factors specific to the home improvement industry may negatively impact the rate of growth of our total sales and comparable sales.
Many U.S. and global economic factors may adversely affect our financial performance. These include, but are not limited to, periods of slow economic growth or recession, decreasing housing turnover or home price appreciation, volatility and/or lack of liquidity from time to time in U.S. and world financial markets and the consequent reduced availability and/or higher cost of borrowing to Lowe’s and its customers, slower rates of growth in real disposable personal income that could affect the rate of growth in consumer spending, high rates of unemployment, consumer debt levels, outbreak of pandemics, fluctuations in fuel and energy costs, inflation or deflation of commodity prices, natural disasters and acts of both domestic and international terrorism. Sales of many of our product categories and services are driven by the activity level of home improvement projects. Adverse development in these factors could result in a decrease in home improvement activity which could reduce demand for our products and services.

Our business could be affected by uncharacteristic or significant weather conditions, including natural disasters and changes in climate, which could impact our operations.
Natural disasters, such as hurricanes and tropical storms, fires, floods, tornadoes, and earthquakes; unseasonable, or unexpected or extreme weather conditions, such as major or extended winter storms or droughts, whether as a result of climate change or otherwise; severe changes in climate; or similar disruptions and catastrophic events can affect consumer spending and confidence and consumers’ disposable income, particularly with respect to home improvement or construction projects, and could have an adverse effect on our financial performance. These types of events can also adversely affect our work force and prevent associates and customers from reaching our stores and other facilities. They can also disrupt or disable operations of stores, support centers, and portions of our supply chain and distribution network, including causing reductions in the availability of inventory and disruption of utility services. In addition, these events may affect our information systems, resulting in disruption to various aspects of our operations, including our ability to transact with customers and fulfill orders and to communicate with our stores. As a consequence of these or other catastrophic or uncharacteristic events, we may experience interruption to our operations, increased costs, or losses of property, equipment or inventory, which would adversely affect our revenue and profitability.

Our costs of doing business could increase as a result of changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations.
Our business is subject to a wide array of federal, state and local laws and regulations. In recent years, a number of new laws and regulations have been adopted, and there has been expanded enforcement of certain existing laws and regulations by federal, state and local agencies. These laws and regulations, and related interpretations and enforcement activity, may change as a result of a variety of factors, including political, economic or social events. Changes in, expanded enforcement of, or adoption of new federal, state or local laws and regulations governing minimum wage requirements, collective bargaining units, the classification of exempt and non-exempt employees, the distinction between employees and contractors, other wage, labor or workplace regulations, health care, data privacy and cybersecurity, the sale and pricing of some of our products; transportation, logistics, international trade, supply chain transparency, taxes, unclaimed property, energy costs and consumption or environmental matters could increase our costs of doing business or impact our operations. In addition, if we fail to comply with other applicable laws and regulations, including the Foreign Corrupt Practices Act and local anti-bribery laws, we could be subject to

reputation and legal risk, including government enforcement action and class action civil litigation, which could adversely affect our business, financial condition and results of operations.

Future litigation or governmental proceedings could result in material adverse consequences, including judgments or settlements, negatively affecting our business, financial condition and results of operations.
We are, and in the future will become, involved in lawsuits, including consumer, commercial, employment, tort and other litigation, regulatory inquiries, and governmental and other legal proceedings arising out of the ordinary course of our business. Some of these proceedings may raise difficult and complicated factual and legal issues and can be subject to uncertainties and complexities. The timing of the final resolutions to lawsuits, regulatory inquiries and governmental and other legal proceedings is typically uncertain. Additionally, the possible outcomes of, or resolutions to, these proceedings could include adverse judgments or settlements, either of which could require substantial payments. Furthermore, defending against these proceedings may require a diversion of management's attention and resources. None of the legal proceedings in which we are currently involved, individually or collectively, are considered material.

Liquidity and access to capital rely on efficient, rational and open capital markets and are dependent on Lowe's credit strength. Our inability to access capital markets could negatively affect our business, financial performance and results of operations.
We have relied on the public debt markets to fund portions of our capital investments and the commercial paper market and bank credit facilities to fund our working capital needs. Our access to these markets depends on our strong credit ratings, the overall condition of debt capital markets and our operating performance. Disruption in the financial markets or an erosion of our credit strength or declines on our credit rating could impact negatively our ability to meet capital requirements or fund working capital needs.

Item 1B - Unresolved Staff Comments

None.

Item 2 - Properties

At January 29, 2021, our properties consisted of 1,974 stores in the U.S. and Canada with a total of approximately 208 million square feet of selling space. Of the total stores operating at January 29, 2021, approximately 84% are owned, which includes stores on leased land, with the remainder being leased from third parties. We also operate regional distribution centers and other facilities to support distribution and fulfillment, as well as data centers and various support offices. Our executive offices are located in Mooresville, North Carolina.

Item 3 - Legal Proceedings

The Company is from time to time a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. With respect to such lawsuits, claims and proceedings, the Company records reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. The Company does not believe that any of these proceedings, individually or in the aggregate, would be expected to have a material adverse effect on its results of operations, financial position, or cash flows. The Company maintains liability insurance for certain risks that are subject to certain self-insurance limits.

Item 4 - Mine Safety Disclosures

Not applicable.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Set forth below is a list of names and ages of the executive officers of the registrant indicating all positions and offices with the registrant held by each such person and each person's principal occupations or employment during the past five years unless otherwise noted. Each executive officer of the registrant is elected by the board of directors. Each executive officer of the registrant holds office from the date of election until a successor is elected or until his or her death, resignation or removal.

Name	Age	Title
Marvin R. Ellison	56	President and Chief Executive Officer since July 2018; Chairman of the Board and Chief Executive Officer, J.C. Penney Company, Inc. (a department store retailer), 2016 – May 2018; Chief Executive Officer, J.C. Penney Company, Inc., 2015 – 2016; President, J.C. Penney Company, Inc., 2014 – 2015; Executive Vice President – U.S. Stores, The Home Depot, Inc. (a home improvement retailer) 2008 – 2014.
William P. Boltz	58	Executive Vice President, Merchandising since August 2018; President and CEO, Chervon North America (a global power tool supplier), 2015 – 2018; President and owner of The Boltz Group, LLC (a retail consulting firm), 2013 – 2015; Senior Vice President, Merchandising, The Home Depot, Inc. (a home improvement retailer), 2006 – 2012.
David M. Denton	55	Executive Vice President and Chief Financial Officer since November 2018; Executive Vice President and Chief Financial Officer, CVS Health Corporation (a pharmacy innovation company), 2010 – November 2018.
Janice Dupré	56	Executive Vice President, Human Resources since June 2020; Senior Vice President, Talent Management & Diversity and Global Chief Diversity Officer, January 2020 – June 2020; Vice President, Leadership Development and Global Chief Diversity Officer, November 2017 – January 2020; Vice President of Diversity & Inclusion, McKesson Corporation (a healthcare company), June 2015 – October 2017.
Donald E. Frieson	62	Executive Vice President, Supply Chain since August 2018; Executive Vice President, Operations, Sam's Club (a general merchandise retailer), 2014 – 2017; Senior Vice President, Replenishment, Planning and Real Estate, Sam's Club, 2012 – 2014.
Seemantini Godbole	51	Executive Vice President, Chief Information Officer since November 2018; Senior Vice President, Technology and Digital, Target Corporation (a department store retailer), January 2017 – November 2018; Vice President, Technology and Digital, Target Corporation, 2013 – December 2016.
Dan C. Griggs, Jr.	43	Senior Vice President, Tax and Chief Accounting Officer since February 2021; Vice President, Chief Accounting Officer, October 2020 – February 2021; Vice President, Corporate Controller, May 2019 – October 2020; Vice President Corporate Controller, CommScope Inc. (a global network infrastructure provider), March 2019 – May 2019; Technical Accounting Director, CommScope Inc., October 2015 – March 2019.
Ross W. McCanless	63	Executive Vice President, General Counsel and Corporate Secretary since 2017; Chief Legal Officer, Secretary and Chief Compliance Officer, 2016 – 2017; General Counsel, Secretary and Chief Compliance Officer, 2015 – 2016; Chief Legal Officer, Extended Stay America, Inc. (a hotel operating company) and ESH Hospitality, Inc. (a hotel real estate investment company), 2013 – 2014.
Joseph M. McFarland III	51	Executive Vice President, Stores since August 2018; Executive Vice President and Chief Customer Officer, J.C. Penney Company, Inc. (a department store retailer), March 2018 – August 2018; Executive Vice President, Stores, J.C. Penney Company, Inc., 2016 – March 2018; Divisional President, The Home Depot, Inc. (a home improvement retailer), 2007 – 2015.
Marisa F. Thalberg	51	Executive Vice President, Chief Brand and Marketing Officer since February 2020; Global Chief Brand Officer, Taco Bell Corporation (a fast-food company), January 2018 – February 2020; Chief Marketing Officer, Taco Bell Corporation, January 2016 – January 2018; Chief Brand Engagement Officer, Taco Bell Corporation, May 2015 – January 2016; Vice President, Corporate Digital and Content Marketing Worldwide, The Estée Lauder Companies (a beauty products company), 2007 – May 2015.

Part II

Item 5 - Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Lowe's common stock is traded on the New York Stock Exchange (NYSE). The ticker symbol for Lowe's is "LOW". As of March 19, 2021, there were 21,657 holders of record of Lowe's common stock.

Total Return to Shareholders

The following information in Item 5 of this Annual Report is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

The following table and graph compare the total returns (assuming reinvestment of dividends) of the Company's common stock, the S&P 500 Index (S&P 500) and the S&P Retailing Industry Group Index (S&P Retail Index). The graph assumes $100 invested on January 29, 2016 in the Company's common stock and each of the indices.

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	1/29/2016	2/3/2017	2/2/2018	2/1/2019	1/31/2020	1/29/2021
Lowe's	$ 100.00	$ 102.27	$ 141.64	$ 135.51	$ 162.21	$ 232.84
S&P 500	100.00	121.06	148.46	148.38	180.37	211.48
S&P Retail Index	$ 100.00	$ 116.33	$ 164.08	$ 176.14	$ 210.51	$ 295.76

Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of the Company's common stock made during the fourth quarter of fiscal 2020:

	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
October 31, 2020 - November 27, 2020	19,438,168	$ 160.59	19,437,809	$ 4,717,617,201
November 28, 2020 - January 1, 2021	2,086	162.37	—	19,717,617,201
January 2, 2021 - January 29, 2021	1,632,370	160.67	1,627,242	19,717,617,201
As of January 29, 2021	**21,072,624**	**$ 160.59**	**21,065,051**	**$ 19,717,617,201**

[1] *The total number of shares purchased includes shares withheld from employees to satisfy either the exercise price of stock options or the statutory withholding tax liability upon the vesting of share-based awards.*

[2] *On December 9, 2020, the Company announced that its Board of Directors authorized an additional $15.0 billion of share repurchases, in addition to the $10.0 billion of share repurchases authorized by the Board of Directors in December 2018, with no expiration.*

Item 6 - Selected Financial Data

Selected Statement of Earnings Data (In millions, except per share data)	**2020**	**2019**	**2018[1]**	**2017**	**2016[2]**
Net sales	$ 89,597	$ 72,148	$ 71,309	$ 68,619	$ 65,017
Gross margin	29,572	22,943	22,908	22,434	21,674
Operating income	9,647	6,314	4,018	6,586	5,846
Net earnings	5,835	4,281	2,314	3,447	3,093
Basic earnings per common share	7.77	5.49	2.84	4.09	3.48
Diluted earnings per common share	7.75	5.49	2.84	4.09	3.47
Dividends per share	$ 2.30	$ 2.13	$ 1.85	$ 1.58	$ 1.33
Selected Balance Sheet Data					
Total assets[3]	$ 46,735	$ 39,471	$ 34,508	$ 35,291	$ 34,408
Long-term debt, excluding current maturities	$ 20,668	$ 16,768	$ 14,391	$ 15,564	$ 14,394

[1] *Effective February 3, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and all related amendments, using the modified retrospective method. Therefore, results for reporting periods beginning after February 2, 2018 are presented under ASU 2014-09, while comparative prior period amounts have not been restated and continue to be presented under accounting standards in effect in those periods.*

[2] *Fiscal 2016 contained 53 weeks, while all other years contained 52 weeks.*

[3] *Effective February 2, 2019, the Company adopted ASU 2016-02, Leases (Topic 842), and all related amendments, using the optional transition approach to not restate comparative periods and recognized the cumulative impact of adoption in the opening balance of retained earnings. Therefore, results for reporting periods beginning after February 1, 2019 are presented under ASU 2016-02, while comparative prior period amounts have not been restated and continue to be presented under accounting standards in effect in those periods.*

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the three-year period ended January 29, 2021 (our fiscal years 2020, 2019, and 2018). Unless otherwise noted, all references herein for the years 2020, 2019, and 2018 represent the fiscal years ended January 29, 2021, January 31, 2020, and February 1, 2019, respectively. We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. This discussion should be read in conjunction with our consolidated financial statements and notes to the consolidated financial statements included in this Annual Report that have been prepared in accordance with accounting principles generally accepted in the United States of America. This discussion and analysis is presented in six sections:

- Executive Overview
- Operations
- Financial Condition, Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Contractual Obligations and Commercial Commitments
- Critical Accounting Policies and Estimates

EXECUTIVE OVERVIEW

Performance Overview

Net sales for fiscal 2020 increased 24.2% over fiscal year 2019 to $89.6 billion. The increase in total sales was driven by an increase in comparable sales, primarily offset by a decrease in sales due to closed stores. Comparable sales increased 26.1% over fiscal year 2019, driven by an increase in comparable transactions of 14.0% and an increase in comparable average ticket of 12.1%. Net earnings for fiscal 2020 increased 36.3% to $5.8 billion. Diluted earnings per common share increased 41.3% in fiscal year 2020 to $7.75 from $5.49 in 2019. Included in the fiscal 2020 results is a $1.1 billion pre-tax loss on extinguishment of debt from cash tender offers to purchase and retire an aggregate principal amount of $3.0 billion in outstanding notes with a weighted average interest rate of 4.80%. The Company funded the cash tender offers with a $4.0 billion issuance of unsecured notes with a weighted average interest rate of 2.17%. These efforts took advantage of a favorable interest rate environment to reduce our long-term interest expense. Also included in the results for fiscal 2020 and 2019 are operating costs related to the Canada restructuring actions. Adjusting 2020 and 2019 amounts for these discrete items not contemplated in the business outlooks for those respective years, adjusted diluted earnings per common share increased 54.4% in fiscal year 2020 to $8.86 from $5.74 in 2019 (see the non-GAAP financial measures discussion).

For 2020, cash flows from operating activities were $11.0 billion, with $1.8 billion used for capital expenditures. Continuing to deliver on our commitment to return excess cash to shareholders, the Company repurchased $5.0 billion of common stock and paid $1.7 billion in dividends during the year.

In 2020, we experienced unprecedented customer demand as the consumer mindset turned its focus to the function and enjoyment of their home. During the COVID-19 pandemic, the home has become a residence, a home school, a home office and the primary location for recreation and entertainment. Due to our execution of the Company's retail fundamentals strategy announced in 2018, which focused on merchandising excellence, supply chain transformation, operational efficiency, and customer engagement, we leveraged our improved operating capabilities to quickly respond to the global health crisis and meet customer demands.

The COVID-19 pandemic changed the way customers shop with Lowe's. In an effort to enhance our omni-channel capabilities and to offer options to meet our customer's needs, we rapidly rolled out curbside pickup in the first quarter. We then launched mobile check-in for curbside pickup along with an internal order picking app to improve associates' speed and accuracy in fulfilling orders, and began the launch of touchless buy online pickup in store (BOPIS) lockers. We also continue to enhance our mobile app to improve the customer pickup experience, including geofencing technology that alerts our stores when customers are on their way to pick up their orders. In addition, we completed the re-platforming of Lowes.com to the cloud which greatly improved site stability and functionality allowing us to achieve triple-digit online sales growth for the year.

To provide customers with a more intuitive shopping experience and better align our product adjacencies, especially for Pro customers, we made a significant merchandising investment to reset the layout of our U.S. stores (U.S. Stores Reset). The U.S. Stores Reset provides a faster shopping experience, increases localized product assortments by eliminating unproductive bays which opens up space for new products better tailored to the local market, and drives more transactions by moving the basket-building category of cleaning products to the main power aisle of the store. The Company incurred approximately $260 million of incremental expense in 2020, which is reflected within selling, general and administrative (SG&A) expenses in the consolidated statement of earnings, with approximately 95% of the resets complete as of the end of the fiscal year.

In addition, throughout 2020, we continued to focus on gaining market share with the Pro customer. We continue to elevate our brand and product offerings in the job lot quantities they need. During the fourth quarter, we launched our new Pro customer relationship management (CRM) tool which provides our Pro Desk with tools to manage, grow and retain our Pro customers through consistent and data-driven selling actions.

COVID-19 Response

We began the year focused on executing our retail strategy; however, we rapidly re-prioritized our objectives to address the impacts of COVID-19. Our Company has been committed to the following priorities while navigating the COVID-19 pandemic:

1. Protecting the health and safety of our associates and customers through a safe store environment and shopping experience,
2. Financially supporting our associates during this challenging time, and
3. Providing support for our community, including healthcare providers and first responders.

We implemented a number of initiatives to facilitate a safer store environment throughout the year, including supporting social distancing by adding signage and floor markers, installing plexiglass shields at the point-of-sale areas, and designating social distancing ambassadors to monitor customer flow traffic; enhancing cleaning procedures; and adopted a requirement for all front-line associates to wear masks and a nationwide standard for all customers to wear masks. For the year, we invested nearly $1.3 billion in COVID-related support for our associates, store safety and communities. As part of our commitment to provide financial assistance to our associates, this investment was inclusive of $915 million of expense to support our associates, which included seven discretionary payments for our hourly associates, a $2 per hour temporary wage increase for hourly associates during the month of April, and emergency paid leave for all associates who needed it. In addition, our support included $109 million in pandemic relief to support our communities, including grants to support minority-owned and rural small businesses.

Looking Forward

In late 2020, after a period of time spent focusing on improving our retail fundamentals, we unveiled our Total Home strategy, which is our commitment to providing a full complement of products and services for Pros and Consumers alike, enabling a Total Home solution for every need in the home. We believe our Total Home strategy will enhance customer engagement and grow market share by intensifying our focus on the Pro customer, expanding our online business, modernizing installation services, improving localization efforts, and elevating our product assortment.

In the coming year, we remain focused on growing market share, improving operating profitability, and driving sustainable growth. While there is uncertainty in the market and the home improvement sector, we believe we have the flexibility to manage and adapt our business in a dynamic economic environment.

OPERATIONS

The following tables set forth the percentage relationship to net sales of each line item of the consolidated statements of earnings, as well as the percentage change in dollar amounts from the prior year. This table should be read in conjunction with the following discussion and analysis and the consolidated financial statements, including the related notes to the consolidated financial statements.

			Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year	Percentage Increase / (Decrease) in Dollar Amounts from Prior Year
	2020	**2019**	**2020 vs. 2019**	**2020 vs. 2019**
Net sales	**100.00 %**	**100.00 %**	**N/A**	**24.2 %**
Gross margin	**33.01**	**31.80**	**121**	**28.9**
Expenses:				
Selling, general and administrative	20.68	21.30	(62)	20.6
Depreciation and amortization	1.56	1.75	(19)	10.9
Operating income	**10.77**	**8.75**	**202**	**52.8**
Interest – net	0.95	0.96	(1)	22.9
Loss on extinguishment of debt	1.18	—	118	N/A
Pre-tax earnings	**8.64**	**7.79**	**85**	**37.6**
Income tax provision	2.13	1.86	27	41.8
Net earnings	**6.51 %**	**5.93 %**	**58**	**36.3 %**

			Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year	Percentage Increase / (Decrease) in Dollar Amounts from Prior Year
	2019	**2018**	**2019 vs. 2018**	**2019 vs. 2018**
Net sales	**100.00 %**	**100.00 %**	**N/A**	**1.2 %**
Gross margin	**31.80**	**32.12**	**(32)**	**0.2**
Expenses:				
Selling, general and administrative	21.30	24.41	(311)	(11.7)
Depreciation and amortization	1.75	2.07	(32)	(14.5)
Operating income	**8.75**	**5.64**	**311**	**57.1**
Interest – net	0.96	0.88	8	10.6
Pre-tax earnings	**7.79**	**4.76**	**303**	**65.7**
Income tax provision	1.86	1.52	34	24.3
Net earnings	**5.93 %**	**3.24 %**	**269**	**85.0 %**

The following table sets forth key metrics utilized by management in assessing business performance. This table should be read in conjunction with the following discussion and analysis and the consolidated financial statements, including the related notes to the consolidated financial statements.

Beginning on February 1, 2020, the Company changed the basis in which it presents the comparable sales metric. The current metric is presented on a transacted basis when tender is accepted from a customer. Prior to this change, the Company’s comparable sales metric was based on when control of the good or service passed to the customer, which included timing impacts of deferred sales. The purpose of the change was to align the metric with how the Lowe’s management team evaluates the business throughout the year and views performance relative to peers. For the fiscal year ended January 29, 2021, the impact of excluding deferred sales increased the comparable sales metric by 62 basis points. For the fiscal year ended January 31, 2020, the impact of excluding deferred sales decreased the comparable sales metric by 7 basis points. For the fiscal year ended February 1, 2019, the impact of excluding deferred sales decreased the comparable sales metric by 20 basis points. The comparable sales metric for the fiscal years ended January 31, 2020 and February 1, 2019, has been recast to conform to the current year presentation.

Other Metrics	2020	2019	2018
Comparable sales increase [1]	26.1 %	2.6 %	2.2 %
Total customer transactions (in millions)	1,046	921	941
Average ticket [2]	$ 85.67	$ 78.36	$ 75.79
At end of year:			
Number of stores	1,974	1,977	2,015
Sales floor square feet (in millions)	208	208	209
Average store size selling square feet (in thousands) [3]	105	105	104
Return on average assets [4]	12.4 %	10.8 %	6.4 %
Return on average shareholders' equity [5]	215.2 %	153.4 %	43.8 %
Net earnings to average debt and equity [6]	21.9 %	17.2 %	9.0 %
Return on invested capital [6]	27.7 %	19.9 %	11.2 %

1 *A comparable location is defined as a retail location that has been open longer than 13 months. A location that is identified for relocation is no longer considered comparable in the month of its relocation. The relocated location must then remain open longer than 13 months to be considered comparable. A location we have decided to close is no longer considered comparable as of the beginning of the month in which we announce its closing. Comparable sales include online sales, which positively impacted fiscal 2020, fiscal 2019, and fiscal 2018 by approximately 565 basis points, 25 basis points, and 80 basis points, respectively.*

2 *Average ticket is defined as net sales divided by the total number of customer transactions.*

3 *Average store size selling square feet is defined as sales floor square feet divided by the number of stores open at the end of the period. The average Lowe's-branded home improvement store has approximately 112,000 square feet of retail selling space.*

4 *Return on average assets is defined as net earnings divided by average total assets for the last five quarters.*

5 *Return on average shareholders' equity is defined as net earnings divided by average shareholders' equity for the last five quarters.*

6 *Return on invested capital is calculated using a non-GAAP financial measure. Net earnings to average debt and equity is the most comparable GAAP ratio. See below for additional information and reconciliations of non-GAAP measures.*

Non-GAAP Financial Measures

Adjusted Diluted Earnings Per Share

Adjusted diluted earnings per share is considered a non-GAAP financial measure. Management believes this non-GAAP financial measure provides useful insight for analysts and investors in evaluating what management considers the Company's core financial performance. Adjusted diluted earnings per share excludes the impact of certain discrete items not contemplated in the Company's business outlooks for 2020 and 2019. Unless otherwise noted, the income tax effect of these adjustments is calculated using the marginal rates for the respective periods.

Fiscal 2020 Impacts

- In the third quarter of fiscal 2019, the Company began a strategic review of its Canadian operations, and in the fourth quarter of fiscal 2019, the Company announced additional restructuring actions to improve future performance and profitability of its Canadian operations. As a result of these actions, the Company recognized pre-tax operating costs of $45 million related to inventory write-downs and other closing costs in fiscal 2020 (Canada restructuring).

- In the third quarter of fiscal 2020, the Company recognized a $1.1 billion loss on extinguishment of debt in connection with the cash tender offers on an aggregate principal amount of $3.0 billion in outstanding notes (Loss on extinguishment of debt).

Fiscal 2019 Impacts

- Prior to the beginning of fiscal 2019, the Company announced its intention to exit its Mexico retail operations and had planned to sell the operating business. However, in the first quarter of fiscal 2019, after an extensive market evaluation, the decision was made to instead sell the assets of the business. That decision resulted in an $82 million tax benefit. Additionally, the Company recognized $35 million of pre-tax operating costs associated with the exit and ongoing wind-down of the Mexico retail operations in fiscal 2019 (Mexico adjustments).

- During the third quarter of fiscal 2019, the Company began a strategic review of its Canadian operations resulting in pre-tax charges of $53 million associated with long-lived asset impairment. In the fourth quarter, the Company recognized pre-tax operating costs and charges of $176 million related to inventory liquidation, accelerated depreciation and amortization, severance, and other costs, as well as a net $26 million impact to income tax expense related to income tax valuation allowance. Total pre-tax operating costs and charges for fiscal 2019 were $230 million (Canada restructuring).

Adjusted diluted earnings per share should not be considered an alternative to, or more meaningful indicator of, the Company's diluted earnings per common share as prepared in accordance with GAAP. The Company's methods of determining this non-GAAP financial measure may differ from the method used by other companies and may not be comparable.

	2020			2019		
	Pre-Tax Earnings	Tax	Net Earnings	Pre-Tax Earnings	Tax	Net Earnings
Diluted earnings per share, as reported			**$ 7.75**			**$ 5.49**
Non-GAAP Adjustments – per share impacts						
Loss on extinguishment of debt	1.41	(0.36)	1.05	—	—	—
Canada restructuring	0.06	—	0.06	0.29	0.02	0.31
Mexico adjustments	—	—	—	0.05	(0.11)	(0.06)
Adjusted diluted earnings per share			**$ 8.86**			**$ 5.74**

Return on Invested Capital

Return on Invested Capital (ROIC) is calculated using a non-GAAP financial measure. Management believes ROIC is a meaningful metric for analysts and investors as a measure of how effectively the Company is using capital to generate profits. Although ROIC is a common financial metric, numerous methods exist for calculating ROIC. Accordingly, the method used by our management may differ from the methods used by other companies. We encourage you to understand the methods used by another company to calculate ROIC before comparing its ROIC to ours.

We define ROIC as the rolling 12 months' lease adjusted net operating profit after tax (Lease adjusted NOPAT) divided by the average of current year and prior year ending debt and equity. Lease adjusted NOPAT is a non-GAAP financial measure, and net earnings is considered to be the most comparable GAAP financial measure. The calculation of ROIC, together with a reconciliation of net earnings to Lease adjusted NOPAT, is as follows:

(In millions, except percentage data)	2020	2019	2018
Calculation of Return on Invested Capital			
Numerator			
Net earnings	$ 5,835	$ 4,281	$ 2,314
Plus:			
Interest expense – net	848	691	624
Operating lease interest	171	195	206
Loss on extinguishment of debt	1,060	—	—
Provision for income taxes	1,904	1,342	1,080
Lease adjusted net operating profit	9,818	6,509	4,224
Less:			
Income tax adjustment [1]	2,416	1,554	1,344
Lease adjusted net operating profit after tax	$ 7,402	$ 4,955	$ 2,880
Denominator			
Average debt and equity [2]	$ 26,686	$ 24,950	$ 25,713
Net earnings to average debt and equity	**21.9 %**	**17.2 %**	**9.0 %**
Return on invested capital	**27.7 %**	**19.9 %**	**11.2 %**

[1] *Income tax adjustment is defined as net operating profit multiplied by the effective tax rate, which was 24.6%, 23.9%, and 31.8% for 2020, 2019, and 2018, respectively.*

[2] *Average debt and equity is defined as average current year and prior year ending debt, including current maturities, short-term borrowings, and operating lease liabilities, plus the average current year and prior year ending total equity.*

Fiscal 2020 Compared to Fiscal 2019

Net Sales – Net sales increased 24.2% to $89.6 billion in 2020. The increase in total sales was driven primarily by comparable sales growth. Comparable sales increased 26.1% over the same period, driven by a 14.0% increase in comparable customer transactions and a 12.1% increase in comparable average ticket. Comparable sales increases during each quarter of the fiscal year, as reported, were 11.2% in the first quarter, 34.2% in the second quarter, 30.1% in the third quarter, and 28.1% in the fourth quarter.

During 2020, we experienced comparable sales increases in all 15 product categories, and broad-based growth with both DIY and Pro customers. Comparable sales were above the Company average in Lumber, Lawn & Garden, Paint, Seasonal & Outdoor Living, Tools, and Décor. Lumber experienced strong performance driven by strong unit demand from both DIY and Pro customers, as well as benefits from improved investments in job lot quantities and commodity inflation. As customers focused on the home this year, Lawn & Garden, Paint, and Tools experienced significant increases from indoor and outdoor DIY friendly home projects and improvements. Lawn & Garden also saw benefit due to COVID-19 preparation in cleaning. Seasonal & Outdoor Living saw increased sales driven by favorable weather, and Décor delivered strong performance in home accents and home organization as customers continue to look for impactful DIY projects. Geographically, all 15 U.S. regions experienced positive comparable sales of at least 20%, while Canada delivered comparable sales of 15%.

During the fourth quarter of 2020, we also experienced comparable sales increases in all 15 product categories. Comparable sales increases were above the company average in Lumber, Seasonal & Outdoor Living, Lawn & Garden, Paint, Building Materials, Electrical, and Décor. Lumber led the sales performance due to strong demand with Pro and DIY customers as well as commodity inflation. Seasonal & Outdoor Living experienced strong performance during the holiday season with a holiday trim-a-tree program that exceeded the customer's expectations. Lawn & Garden and Paint benefited from consumers' continued focus on the home. Building Materials saw strong demand with the Pro customer, particularly in roofing and gutters. Geographically, all 15 U.S. regions experienced increases in fourth quarter comparable sales of at least 19%, and Canada delivered increased comparable sales of 18%.

Gross Margin – Gross margin as a percentage of sales for 2020 increased 121 basis points compared to 2019. Gross margin was positively impacted by approximately 235 basis points of total rate improvement driven by continued improvements in our pricing and promotional strategies as well as approximately 20 basis points of leverage due to prior year impact of store closures and inventory liquidation associated with the Canadian restructuring. These benefits were partially offset by 25 basis points of deleverage from supply chain costs, 25 basis points of deleverage from lower credit revenue, 25 basis points of deleverage due to product mix, 20 basis points of deleverage from inventory shrink, and 20 basis points of deleverage due to tariff pressure.

During the fourth quarter of 2020, gross margin increased 70 basis points as a percentage of sales. Gross margin was positively impacted by approximately 145 basis points of total rate improvement driven by continued improvements in our pricing, cost management, and promotional strategies as well as 80 basis points of leverage due to prior year impact of store closures and inventory liquidation associated with the Canadian restructuring. These benefits were partially offset by 40 basis points of deleverage related to supply chain costs, 40 basis points of deleverage from inventory shrink, 35 basis points of deleverage due to product mix, and 20 basis points of deleverage from lower credit revenue.

SG&A – SG&A expense for 2020 leveraged 62 basis points as a percentage of sales compared to 2019. This was primarily driven by 115 basis points of leverage in retail operating salaries due to increased sales and improved store operating efficiencies, 30 basis points of leverage in advertising, 30 basis point of leverage in occupancy related to increased sales and decreased lease expenses, and 15 basis points of leverage related to the Company's Canadian restructuring, which included prior year long-lived asset impairment, severance and other costs as well as current year closing costs. These were partially offset by 135 deleverage due to COVID-19 related expenses, including discretionary bonuses paid to hourly front-line employees, emergency paid leave, and increased cleaning costs and other safety-related programs, and 30 basis points of deleverage due to our U.S. Stores Reset.

For the fourth quarter of 2020, SG&A expense leveraged 63 basis points as a percentage of sales compared to the fourth quarter of 2019. This was primarily driven by 130 basis points of leverage in retail operating salaries due to increased sales and improved store operating efficiencies, 30 basis points of leverage in occupancy related to increased sales and decreased lease expense, 25 basis points of leverage in advertising, 20 basis points of leverage related to the Company's Canadian restructuring, which included prior year long-lived asset impairment, severance and other costs as well as current year closing costs, and 15 basis points of leverage in utilities related to efficiency upgrades. These were partially offset by 80 basis points deleverage due to COVID-19 related expenses, including hourly front-line employee bonus, emergency paid leave, and increased cleaning costs and other safety-related programs, and 75 basis points deleverage due to our U.S. Stores Reset.

Depreciation and Amortization – Depreciation and amortization expense leveraged 19 basis points for 2020 as a percentage of sales compared to 2019, driven by increased sales in the current year. Depreciation and amortization expense increased year over year due to incremental depreciation related to investments in the business. Property, less accumulated depreciation, increased to $19.2 billion at January 29, 2021, compared to $18.8 billion at January 31, 2020. As of January 29, 2021, and January 31, 2020, we owned 84% of our stores, which included stores on leased land.

Interest – Net – Net interest expense is comprised of the following:

(In millions)		2020		2019
Interest expense, net of amount capitalized	$	859	$	706
Amortization of original issue discount and loan costs		13		12
Interest income		(24)		(27)
Interest – net	**$**	**848**	**$**	**691**

Net interest expense in 2020 leveraged one basis point primarily as a result of increased sales in the current year, offset by interest expense related to the issuance of $4.0 billion unsecured notes in March 2020 and $4.0 billion unsecured notes in October 2020.

Loss on Extinguishment of Debt – During the third quarter of 2020, we repurchased and retired $3.0 billion aggregate principal amount of our outstanding debt resulting in a loss on extinguishment of debt of $1.1 billion.

Income Tax Provision – Our effective income tax rate was 24.6% in 2020 compared to 23.9% in 2019. For 2019, the rate was favorably impacted by the tax benefit associated with the Company's decision to sell the assets of the Mexico business, which was offset by a valuation allowance established for the Company's RONA inc. entity in Canada.

Our effective income tax rates were 25.9% and 34.3% for the three months ended January 29, 2021 and January 31, 2020, respectively. Our effective income tax rate for the fourth quarter of 2019 was negatively impacted by the valuation allowance established for the Company's RONA inc. entity in Canada.

Fiscal 2019 Compared to Fiscal 2018

For a comparison of our results of operations for the fiscal years ended January 31, 2020 and February 1, 2019, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended January 31, 2020, filed with the SEC on March 23, 2020.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Significant customer demand and operating performance for the fiscal year drove a substantial increase in cash flows from operations. These increases, supplemented with our short-term and long-term borrowings, have provided ample liquidity to fund our operations while allowing us to make strategic investments in our omni-channel capabilities to support long-term growth and return excess cash to shareholders in the form of dividends and share repurchases. As of January 29, 2021, we held $4.7 billion of cash and cash equivalents, as well as $3 billion in undrawn capacity on our revolving credit facilities. We believe that our sources of liquidity will continue to be adequate to fund our operations and investments to grow our business, repay our debt as it becomes due, pay dividends, and fund our share repurchases over the next 12 months.

Cash Flows Provided by Operating Activities

(In millions)		2020		2019		2018
Net cash provided by operating activities	$	11,049	$	4,296	$	6,193

Cash flows from operating activities continued to provide the primary source of our liquidity. The increase in net cash provided by operating activities for the year ended January 29, 2021 versus the year ended January 31, 2020, was due primarily to higher net earnings and changes in working capital. Accounts payable increased for fiscal 2020 by $3.2 billion compared to a decrease of $637 million in fiscal 2019, driving an additional $3.8 billion in operating cash flows for fiscal 2020. The increase in accounts payable was driven by higher sustained inventory purchase volume in 2020 as compared to 2019. Other operating liabilities increased $813 million for fiscal 2020 compared to a decrease of $639 million in fiscal 2019. The increase in other operating liabilities in the current year is primarily driven by increases in accrued compensation and employee benefits, and increased accrued payroll taxes due to the deferral of qualifying employer payroll taxes in accordance with the Coronavirus, Aid, Relief, and Economic Securities Act (the CARES Act). Inventory decreased operating cash flow for fiscal 2020 by approximately $3.0 billion compared to a decrease of $600 million for fiscal 2019, primarily due to higher inventory purchases to meet sustained customer demand in 2020, as well as build-up of inventory for the spring selling season.

Cash Flows Used in Investing Activities

(In millions)	2020	2019	2018
Net cash used in investing activities	$ (1,894)	$ (1,369)	$ (1,080)

Net cash used in investing activities primarily consists of transactions related to capital expenditures.

Capital expenditures

Our capital expenditures generally consist of investments in our strategic initiatives to enhance our ability to serve customers, improve existing stores, and support expansion plans. Capital expenditures were $1.8 billion in 2020, $1.5 billion in 2019, and $1.2 billion in 2018. The following table provides the allocation of capital expenditures for 2020, 2019, and 2018:

	2020	2019	2018
Existing store investments [1]	85 %	80 %	60 %
Strategic initiatives [2]	10 %	10 %	20 %
New stores, new corporate facilities and international [3]	5 %	10 %	20 %
Total capital expenditures	**100 %**	**100 %**	**100 %**

[1] *Includes merchandising resets, facility repairs, replacements of IT and store equipment, among other specific efforts.*
[2] *Represents investments related to our strategic focus areas aimed at improving customers' experience and driving improved performance in the near and long term.*
[3] *Represents expenditures primarily related to land purchases, buildings, and personal property for new store projects and new corporate facilities projects as well as expenditures related to our international operations.*

Our 2021 capital expenditures forecast is approximately $2.0 billion. The following table provides the allocation of our fiscal 2021 capital expenditures forecast:

	2021
Existing store investments	60 %
Strategic initiatives	30 %
New stores, new corporate facilities and international	10 %

Cash Flows Used in Financing Activities

(In millions)	2020	2019	2018
Net cash used in financing activities	$ (5,191)	$ (2,735)	$ (5,124)

Net cash used in financing activities primarily consist of transactions related to our short-term borrowings, long-term debt, share repurchases, and cash dividend payments.

Short-term Borrowing Facilities

In March 2020, we entered into a $1.02 billion five-year unsecured revolving credit agreement (the 2020 Credit Agreement) with a syndicate of banks. In addition, we have a $1.98 billion five-year unsecured revolving second amended and restated credit agreement (the Second Amended and Restated Credit Agreement) with a syndicate of banks. Subject to obtaining commitments from the lenders and satisfying other conditions specified in the 2020 Credit Agreement and the Second Amended and Restated Credit Agreement, the Company may increase the combined aggregate availability of both agreements by an additional $520 million.

In January 2020, we entered into a $1 billion unsecured 364-day term loan facility (the “Term Loan”). The Company repaid the Term Loan during fiscal 2020.

In September 2019, we entered into a $250 million unsecured 364-day credit agreement (the 2019 Credit Agreement) with a syndicate of banks. In connection with the 2020 Credit Agreement, the Company refinanced the 2019 Credit Agreement and terminated any commitments under the 2019 Credit Agreement as of March 23, 2020.

The 2020 Credit Agreement and the Second Amended and Restated Credit Agreement support our commercial paper program. The amount available to be drawn under the 2020 Credit Agreement and the Second Amended and Restated Credit Agreement is reduced by the amount of borrowings under our commercial paper program. There were no outstanding borrowings under the Company’s commercial paper program, the 2020 Credit Agreement, or the Second Amended and Restated Credit Agreement as of January 29, 2021. Outstanding borrowings under the Company’s commercial paper program were $941 million, with a weighted average interest rate of 2.10%, as of January 31, 2020. There was $1.0 billion in outstanding borrowings under the Term Loan, with a weighted average interest rate of 2.29%, and no borrowings outstanding under the Second Amended and Restated Credit Agreement or the 2019 Credit Agreement as of January 31, 2020. Total combined availability under the 2020 Credit Agreement and the Second Amended and Restated Credit Agreement as of January 29, 2021, was $3.0 billion.

Our commercial paper program, along with cash flows generated from operations, is typically utilized during our fourth fiscal quarter to build inventory in anticipation of the spring selling season. The following table includes additional information related to our short-term borrowings for 2020, 2019, and 2018:

(In millions, except for interest rate data)	2020	2019	2018
Net change in commercial paper	$ (941)	$ 220	$ (415)
Maximum commercial paper outstanding at any month-end	$ 1,858	$ 1,364	$ 892
Short-term borrowings outstanding at year-end	$ —	$ 1,941	$ 722
Weighted-average interest rate of short-term borrowings outstanding	— %	2.14 %	2.81 %

The Second Amended and Restated Credit Agreement and the 2020 Credit Agreement contain customary representations, warranties, and covenants. We were in compliance with those covenants at January 29, 2021.

Long-term Debt

The following table includes additional information related to the Company’s long-term debt for 2020, 2019, and 2018:

(In millions)	2020	2019	2018
Net proceeds from issuance of debt	$ 7,929	$ 3,972	$ —
Repayment of debt	$ (5,618)	$ (1,113)	$ (326)

In 2020, we issued $8.0 billion of unsecured notes. This is comprised of $4.0 billion of unsecured notes issued in March 2020 to finance current year maturities and for other general corporate purposes and $4.0 billion of unsecured notes issued in October 2020 to fund the 2020 cash tender offers to purchase existing unsecured notes and for other general corporate purposes. We completed the tender offers in October 2020 in which we purchased and retired an aggregate principal amount of $3.0 billion of our higher coupon notes prior to maturity to take advantage of a favorable interest rate environment to reduce our long-term interest expense. As part of this transaction, we incurred $1.1 billion of debt extinguishment costs which included premium to noteholders and the cost of reverse treasury lock derivative contracts associated with the tender offers. In 2020, we paid $500 million to repay scheduled long-term debts at maturity.

In 2019, we issued $3.0 billion of unsecured notes to finance 2019 maturities and for other general corporate purposes, which included share repurchases, capital expenditures, strategic investments, and working capital needs. In 2019, we paid approximately $1.1 billion to retire scheduled debts at maturity.

Our ratio of debt to capital (equity plus debt) was 93.8% and 90.7% as of January 29, 2021 and January 31, 2020, respectively.

Share Repurchases

We have an ongoing share repurchase program, authorized by the Company's Board of Directors, that is executed through purchases made from time to time either in the open market or through private off-market transactions. We also withhold shares from employees to satisfy tax withholding liabilities. Shares repurchased are retired and returned to authorized and unissued status. The following table provides, on a settlement date basis, the total number of shares repurchased, average price paid per share, and the total amount paid for share repurchases for 2020, 2019, and 2018:

(In millions, except per share data)	2020	2019	2018
Total amount paid for share repurchases	$ 4,971	$ 4,313	$ 3,037
Total number of shares repurchased	34.5	41.2	31.6
Average price paid per share	$ 144.08	$ 104.68	$ 96.18

As of January 29, 2021, we had $19.7 billion remaining under our share repurchase program with no expiration date. We expect to repurchase shares totaling approximately $9.0 billion in 2021.

Dividends

In 2020, we increased our quarterly dividend payment by 9% to $0.60 per share. Our dividend payment dates are established such that dividends are paid in the quarter immediately following the quarter in which they are declared. The following table provides additional information related to our dividend payments for 2020, 2019, and 2018:

(In millions, except per share data and percentage data)	2020	2019	2018
Total cash dividend payments	$ 1,704	$ 1,618	$ 1,455
Dividends paid per share	$ 2.25	$ 2.06	$ 1.78
Dividend payout ratio	29 %	38 %	63 %

Capital Resources

We expect to continue to have access to the capital markets on both short-term and long-term bases when needed for liquidity purposes by issuing commercial paper or new long-term debt. The availability and the borrowing costs of these funds could be adversely affected, however, by a downgrade of our debt ratings or a deterioration of certain financial ratios. The table below reflects our debt ratings by Standard & Poor's (S&P) and Moody's as of March 22, 2021, which is disclosed to provide an enhanced understanding of our sources of liquidity and the effect of our ratings on our cost of funds. Our debt ratings have enabled, and should continue to enable, us to refinance our debt as it becomes due at favorable rates in capital markets. Our commercial paper and senior debt ratings may be subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating.

Debt Ratings	**S&P**	**Moody's**
Commercial Paper	A-2	P-2
Senior Debt	BBB+	Baa1
Outlook	**Stable**	**Stable**

There are no provisions in any agreements that would require early cash settlement of existing debt or leases as a result of a downgrade in our debt rating or a decrease in our stock price. In addition, we do not believe it will be necessary to repatriate significant cash and cash equivalents and short-term investments held in foreign affiliates to fund domestic operations.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet financing that has, or is reasonably likely to have, a current or future material effect on our financial condition, cash flows, results of operations, liquidity, capital expenditures or capital resources.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes our significant contractual obligations at January 29, 2021:

	Payments Due by Period				
Contractual Obligations (in millions)	**Total**	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Long-term debt (principal amounts, excluding discount and debt issuance costs)	$ 21,312	$ 1,025	$ 1,268	$ 1,950	$ 17,069
Long-term debt (interest payments)	19,390	774	1,458	1,377	15,781
Finance lease obligations [1, 2]	796	113	231	195	257
Operating leases [1, 2]	5,519	684	1,413	1,122	2,300
Purchase obligations [3]	1,118	654	364	100	—
Total contractual obligations	**$ 48,135**	**$ 3,250**	**$ 4,734**	**$ 4,744**	**$ 35,407**

	Amount of Commitment Expiration by Period				
Commercial Commitments (in millions)	**Total**	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Letters of Credit [4]	$ 61	$ 4	$ 57	$ —	$ —

1 *Amounts do not include taxes, common area maintenance, insurance, or contingent rent because these amounts have historically been insignificant.*

2 *Amounts include imputed interest.*

3 *Purchase obligations include agreements to purchase goods or services that are enforceable, are legally binding, and specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase obligations include firm commitments related to certain marketing and information technology programs, as well as purchases of merchandise inventory.*

4 *Letters of credit are issued primarily for insurance and construction contracts.*

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated financial statements and notes to consolidated financial statements presented in this Annual Report requires us to make estimates that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosures of contingent assets and liabilities. We base these estimates on historical results and various other assumptions believed to be reasonable, all of which form the basis for making estimates concerning the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Our significant accounting policies are described in Note 1 to the consolidated financial statements included herein. We believe that the following accounting policies affect the most significant estimates and management judgments used in preparing the consolidated financial statements.

Merchandise Inventory

Description
We record an obsolete inventory reserve for the anticipated loss associated with selling inventories below cost. This reserve is based on our current knowledge with respect to inventory levels, sales trends and historical experience. During 2020, our reserve increased approximately $77 million to $182 million as of January 29, 2021.

We also record an inventory reserve for the estimated shrinkage between physical inventories. This reserve is based primarily on actual shrinkage results from previous physical inventories. Due to COVID-19, the Company did not complete physical inventories for approximately 7% of retail locations originally planned in 2020. For those locations where physical inventories were not completed, the Company recorded an immaterial adjustment for its estimate of shrinkage as of January 29, 2021, and these locations will have physical inventories completed by March 31, 2021. During 2020, the inventory shrink reserve increased approximately $121 million to $365 million as of January 29, 2021, in response to higher volumes and estimated shrinkage rates based on results from previous physical inventories.

In addition, we receive funds from vendors in the normal course of business, principally as a result of purchase volumes, sales, early payments or promotions of vendors' products. Generally, these vendor funds do not represent the reimbursement of specific, incremental and identifiable costs that we incurred to sell the vendor's product. Many of the vendor funds associated with these purchases are earned under agreements that are negotiated on an annual basis or shorter. The funds are recorded as a reduction to the cost of inventory as they are earned. As the related inventory is sold, the amounts are recorded as a reduction to cost of sales. Funds that are determined to be reimbursements of specific, incremental and identifiable costs incurred to sell vendors' products are recorded as an offset to the related expense.

Judgments and uncertainties involved in the estimate
We do not believe that our merchandise inventories are subject to significant risk of obsolescence in the near term, and we have the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns or a deterioration in product quality could result in the need for additional reserves. Likewise, changes in the estimated shrink reserve may be necessary, based on the timing and results of physical inventories. We also apply judgment in the determination of levels of obsolete inventory and assumptions about net realizable value.

For vendor funds, we develop accrual rates based on the provisions of the agreements in place. Due to the complexity and diversity of the individual vendor agreements, we perform analyses and review historical purchase trends and volumes throughout the year, adjust accrual rates as appropriate and confirm actual amounts with select vendors to ensure the amounts earned are appropriately recorded. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met.

Effect if actual results differ from assumptions
We have not made any material changes in the methodology used to establish our inventory valuation or the related reserves for obsolete inventory or inventory shrinkage during the past three fiscal years. We believe that we have sufficient current and historical knowledge to record reasonable estimates for both of these inventory reserves. However, it is possible that actual results could differ from recorded reserves. A 10% change in either the amount of products considered obsolete or the weighted average estimated loss rate used in the calculation of our obsolete inventory reserve would have affected net earnings by approximately $14 million for 2020. A 10% change in the estimated shrinkage rate included in the calculation of our inventory shrink reserve would have affected net earnings by approximately $27 million for 2020.

We have not made any material changes in the methodology used to recognize vendor funds during the past three fiscal years. If actual results are not consistent with the assumptions and estimates used, we could be exposed to additional adjustments that could positively or negatively impact gross margin and inventory. However, substantially all receivables associated with these activities do not require subjective long-term estimates because they are collected within the following fiscal year. Adjustments to gross margin and inventory in the following fiscal year have historically not been material.

Long-Lived Asset Impairment

Description
We review the carrying amounts of locations whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. When evaluating locations for impairment, our asset group is at an individual location level, as that is the lowest level for which cash flows are identifiable. Cash flows for individual locations do not include an allocation of corporate overhead.

We evaluate locations for triggering events relating to long-lived asset impairment on a quarterly basis to determine when a location's asset may not be recoverable. For operating locations, our primary indicator that assets may not be recoverable is consistently negative cash flow for a 12-month period for those locations that have been open in the same location for a sufficient period of time to allow for meaningful analysis of ongoing operating results. Management also monitors other factors when evaluating operating locations for impairment, including individual locations' execution of their operating plans and local market conditions, including incursion, which is the opening of either other Lowe's locations or those of a direct competitor within the same market. We also consider there to be a triggering event when there is a current expectation that it is more likely than not that a given location will be closed or otherwise disposed of significantly before the end of its previously estimated useful life.

A potential impairment has occurred if projected future undiscounted cash flows expected to result from the use and eventual disposition of the location's assets are less than the carrying amount of the assets. The carrying value of a location's asset group includes inventory, property, operating and finance lease right-of-use assets and operating liabilities including inventory payables, salaries payable and operating lease liabilities. Financial and nonoperating liabilities are excluded from the carrying value of the asset group. When determining the stream of projected future cash flows associated with an individual operating location, management makes assumptions, incorporating local market conditions, about key store variables including sales growth rates, gross margin and controllable expenses, such as store payroll and operating expense, as well as asset residual values or lease rates. Operating lease payments are included in the projected future cash flows. Financing lease payments are excluded from the projected future cash flows. An impairment loss is recognized when the carrying amount of the operating location is not recoverable and exceeds its fair value.

We use an income approach to determine the fair value of our individual operating locations, which requires discounting projected future cash flows. This involves making assumptions regarding both a location's future cash flows, as described above, and an appropriate discount rate to determine the present value of those future cash flows. We discount our cash flow estimates at a rate commensurate with the risk that selected market participants would assign to the cash flows. The selected market participants represent a group of other retailers with a market footprint similar in size to ours.

We use a market approach to determine the fair value of our individual locations identified for closure. This involves making assumptions regarding the estimated selling prices or estimated lease rates by obtaining information from property brokers or appraisers in the specific markets being evaluated. The information includes comparable sales of similar assets and assumptions about demand in the market for purchase or lease of these assets.

Judgments and uncertainties involved in the estimate
Our impairment evaluations require us to apply judgment in determining whether a triggering event has occurred, including the evaluation of whether it is more likely than not that a location will be closed significantly before the end of its previously estimated useful life. Our impairment loss calculations require us to apply judgment in estimating expected future cash flows, including estimated sales, margin, and controllable expenses, assumptions about market performance for operating locations, and estimated selling prices or lease rates for locations identified for closure. We also apply judgment in estimating asset fair values, including the selection of an appropriate discount rate for fair values determined using an income approach.

Effect if actual results differ from assumptions
During fiscal years 2020 and 2019, long-lived asset impairment recorded within selling, general and administrative expenses in the consolidated statements of earnings was immaterial. We have not made any material changes in the methodology used to estimate the future cash flows of operating locations or locations identified for closure during the past three fiscal years. If the actual results are not consistent with the assumptions and judgments we have made in determining whether it is more likely than not that a location will be closed significantly before the end of its useful life or in estimating future cash flows and determining asset fair values, our actual impairment losses could vary from our estimated impairment losses. In the event that our estimates vary from actual results, we may record additional impairment losses, which could be material to our results of operations.

Self-Insurance

Description
We are self-insured for certain losses relating to workers' compensation, automobile, general and product liability, extended protection plans, and certain medical and dental claims. We have excess insurance coverage above certain retention amounts to limit exposure from single events and earnings volatility. Our self-insured retention or deductible, as applicable, is limited to $2 million per occurrence involving workers' compensation, $10 million per occurrence involving general or product liability, and $10 million per occurrence involving automobile. We do not have any excess insurance coverage for self-insured extended protection plan or medical and dental claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon our estimates of the discounted ultimate cost for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. During 2020, our self-insurance liabilities decreased approximately $11 million to $1.1 billion as of January 29, 2021.

Judgments and uncertainties involved in the estimate
These estimates are subject to changes in the regulatory environment, utilized discount rate, projected exposures including payroll, sales and vehicle units, as well as the frequency, lag and severity of claims.

Effect if actual results differ from assumptions

We have not made any material changes in the methodology used to establish our self-insurance liability during the past three fiscal years. Although we believe that we have the ability to reasonably estimate losses related to claims, it is possible that actual results could differ from recorded self-insurance liabilities. A 10% change in our self-insurance liability would have affected net earnings by approximately $82 million for 2020. A 100 basis point change in our discount rate would have affected net earnings by approximately $23 million for 2020.

Item 7A - Quantitative and Qualitative Disclosures about Market Risk

In addition to the risks inherent in our operations, we are exposed to certain market risks, including changes in interest rates, commodity prices and foreign currency exchange rates.

Interest Rate Risk

We use forward starting interest rate swaps to hedge our exposure to the impact of interest rate changes in future debt issuances. The fair value of our derivative financial instruments as of January 29, 2021, was not material. Fluctuations in interest rates do not have a material impact on our financial condition and results of operations because our long-term debt is carried at amortized cost and consists primarily of fixed-rate instruments. Therefore, providing quantitative information about interest rate risk is not meaningful for our financial instruments.

Commodity Price Risk

We purchase certain commodity products that are subject to price volatility caused by factors beyond our control, which could potentially have a material impact on our financial condition and/or results of operations. We believe that the price volatility of these products is partially mitigated by our ability to adjust selling prices. The selling prices of these commodity products are influenced, in part, by the market price we pay and our competitive environment.

Foreign Currency Exchange Rate Risk

Although we have international operating entities, our exposure to foreign currency rate fluctuations is not material to our financial condition and result of operations.

Item 8 - Financial Statements and Supplementary Data

Table of Contents

- Management's Report on Internal Control over Financial Reporting
- Report of Independent Registered Public Accounting Firm
- Consolidated Statements of Earnings
- Consolidated Statements of Comprehensive Income
- Consolidated Balance Sheets
- Consolidated Statements of Shareholders' Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements
  - Note 1: Summary of Significant Accounting Policies
  - Note 2: Revenue
  - Note 3: Fair Value Measurements
  - Note 4: Property and Accumulated Depreciation
  - Note 5: Leases
  - Note 6: Exit Activities
  - Note 7: Short-Term Borrowings
  - Note 8: Long-Term Debt
  - Note 9: Derivative Instruments
  - Note 10: Shareholders' Equity
  - Note 11: Accounting for Share-Based Payments
  - Note 12: Employee Retirement Plans
  - Note 13: Income Taxes
  - Note 14: Earnings Per Share
  - Note 15: Commitments and Contingencies
  - Note 16: Related Parties
  - Note 17: Other Information

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Lowe's Companies, Inc. and its subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting (Internal Control) as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Our Internal Control was designed to provide reasonable assurance to our management and the Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the reliability of financial reporting and financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness may vary over time.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our Internal Control as of January 29, 2021. In evaluating our Internal Control, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013). Based on our management's assessment, we have concluded that, as of January 29, 2021, our Internal Control is effective.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the financial statements contained in this Annual Report, was engaged to audit our Internal Control. Their report appears on page 36.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Lowe’s Companies, Inc. and subsidiaries (the “Company”) as of January 29, 2021 and January 31, 2020, the related consolidated statements of earnings, comprehensive income, shareholders’ equity, and cash flows, for each of the three fiscal years in the period ended January 29, 2021, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 29, 2021 and January 31, 2020, and the results of its operations and its cash flows for each of the three fiscal years in the period ended January 29, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 29, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 22, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Accounting Pronouncement Recently Adopted

As discussed in Note 5 to the financial statements, the Company changed its method of accounting for leases in the fiscal year ended January 31, 2020 due to the adoption of Financial Accounting Standards Board Accounting Standards Update 2016-02, *Leases (Topic 842)*.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Merchandise Inventory – Vendor Funds – Refer to Note 1 to the financial statements

Critical Audit Matter Description

The Company receives funds from its vendors in the normal course of business, principally as a result of purchase volumes and sales. In the fiscal year ended January 29, 2021, the Company purchased inventory from a significant number of vendors. Many of the vendor funds associated with these purchases are earned under agreements that are negotiated on an annual basis or shorter. The funds are recorded as a reduction to the cost of inventory as they are earned. As the related inventory is sold, the amounts are recorded as a reduction to cost of sales.

We identified vendor funds as a critical audit matter because of the volume and varying terms of the individual vendor agreements. This required an increased extent of effort when performing audit procedures to evaluate whether the vendor funds were recorded in accordance with the terms of the vendor agreements.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to whether the vendor funds were recorded in accordance with the terms of the vendor agreements included the following, among others:

- We tested the effectiveness of controls over vendor funds, including management’s controls over the accrual and recording of vendor funds as a reduction to the cost of inventory or cost of sales in accordance with the terms of the vendor agreements.
- We selected a sample of vendor funds and recalculated the amount earned using the terms of the vendor agreement, including the amount recorded as a reduction to the cost of inventory and/or the amount recorded as a reduction to cost of sales.
- We selected a sample of vendor funds and confirmed the amount earned and terms of the agreement directly with the vendor.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
March 22, 2021

We have served as the Company's auditor since 1962.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Lowe’s Companies, Inc. and subsidiaries (the “Company”) as of January 29, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 29, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the fiscal year ended January 29, 2021, of the Company and our report dated March 22, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
March 22, 2021

Lowe's Companies, Inc.
Consolidated Statements of Earnings
(In millions, except per share and percentage data)

	Fiscal Years Ended					
	January 29, 2021		January 31, 2020		February 1, 2019	
Current Earnings	**Amount**	**% Sales**	**Amount**	**% Sales**	**Amount**	**% Sales**
Net sales	**$ 89,597**	**100.00 %**	**$ 72,148**	**100.00 %**	**$ 71,309**	**100.00 %**
Cost of sales	60,025	66.99	49,205	68.20	48,401	67.88
Gross margin	**29,572**	**33.01**	**22,943**	**31.80**	**22,908**	**32.12**
Expenses:						
Selling, general and administrative	18,526	20.68	15,367	21.30	17,413	24.41
Depreciation and amortization	1,399	1.56	1,262	1.75	1,477	2.07
Operating income	**9,647**	**10.77**	**6,314**	**8.75**	**4,018**	**5.64**
Interest – net	848	0.95	691	0.96	624	0.88
Loss on extinguishment of debt	1,060	1.18	—	—	—	—
Pre-tax earnings	**7,739**	**8.64**	**5,623**	**7.79**	**3,394**	**4.76**
Income tax provision	1,904	2.13	1,342	1.86	1,080	1.52
Net earnings	**$ 5,835**	**6.51 %**	**$ 4,281**	**5.93 %**	**$ 2,314**	**3.24 %**
Basic earnings per common share	**$ 7.77**		**$ 5.49**		**$ 2.84**	
Diluted earnings per common share	**$ 7.75**		**$ 5.49**		**$ 2.84**	

Lowe's Companies, Inc.
Consolidated Statements of Comprehensive Income
(In millions, except percentage data)

	Fiscal Years Ended					
	January 29, 2021		January 31, 2020		February 1, 2019	
	Amount	**% Sales**	**Amount**	**% Sales**	**Amount**	**% Sales**
Net earnings	**$ 5,835**	**6.51 %**	**$ 4,281**	**5.93 %**	**$ 2,314**	**3.24 %**
Foreign currency translation adjustments – net of tax	78	0.09	94	0.13	(221)	(0.30)
Cash flow hedges – net of tax	(79)	(0.09)	(22)	(0.03)	(1)	—
Other	1	—	1	—	2	—
Other comprehensive income/(loss)	**—**	**—**	**73**	**0.10**	**(220)**	**(0.30)**
Comprehensive income	**$ 5,835**	**6.51 %**	**$ 4,354**	**6.03 %**	**$ 2,094**	**2.94 %**

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc.
Consolidated Balance Sheets
(In millions, except par value)

	January 29, 2021	January 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 4,690	$ 716
Short-term investments	506	160
Merchandise inventory – net	16,193	13,179
Other current assets	937	1,263
Total current assets	**22,326**	**15,318**
Property, less accumulated depreciation	19,155	18,769
Operating lease right-of-use assets	3,832	3,891
Long-term investments	200	372
Deferred income taxes – net	340	216
Other assets	882	905
Total assets	**$ 46,735**	**$ 39,471**
Liabilities and shareholders' equity		
Current liabilities:		
Short-term borrowings	$ —	$ 1,941
Current maturities of long-term debt	1,112	597
Current operating lease liabilities	541	501
Accounts payable	10,884	7,659
Accrued compensation and employee benefits	1,350	684
Deferred revenue	1,608	1,219
Other current liabilities	3,235	2,581
Total current liabilities	**18,730**	**15,182**
Long-term debt, excluding current maturities	20,668	16,768
Noncurrent operating lease liabilities	3,890	3,943
Deferred revenue – extended protection plans	1,019	894
Other liabilities	991	712
Total liabilities	**45,298**	**37,499**
Commitments and contingencies		
Shareholders' equity:		
Preferred stock – $5 par value: Authorized – 5.0 million shares; Issued and outstanding – none	—	—
Common stock – $0.50 par value: Authorized – 5.6 billion shares; Issued and outstanding – 731 million and 763 million, respectively	366	381
Capital in excess of par value	90	—
Retained earnings	1,117	1,727
Accumulated other comprehensive loss	(136)	(136)
Total shareholders' equity	**1,437**	**1,972**
Total liabilities and shareholders' equity	**$ 46,735**	**$ 39,471**

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc.
Consolidated Statements of Shareholders' Equity
(In millions, except per share data)

	Common Stock									
	Shares		Amount		Capital in Excess of Par Value		Retained Earnings		Accumulated Other Comprehensive Income/(Loss)		Total Shareholders' Equity
Balance February 2, 2018	**830**	**$**	**415**	**$**	**22**	**$**	**5,425**	**$**	**11**	**$**	**5,873**
Cumulative effect of accounting change	—		—		—		33		—		33
Net earnings	—		—		—		2,314		—		2,314
Other comprehensive loss	—		—		—		—		(220)		(220)
Cash dividends declared, $1.85 per share	—		—		—		(1,500)		—		(1,500)
Share-based payment expense	—		—		74		—		—		74
Repurchases of common stock	(32)		(16)		(209)		(2,820)		—		(3,045)
Issuance of common stock under share-based payment plans	3		2		113		—		—		115
Balance February 1, 2019	**801**	**$**	**401**	**$**	**—**	**$**	**3,452**	**$**	**(209)**	**$**	**3,644**
Cumulative effect of accounting change	—		—		—		(263)		—		(263)
Net earnings	—		—		—		4,281		—		4,281
Other comprehensive income	—		—		—		—		73		73
Cash dividends declared, $2.13 per share	—		—		—		(1,653)		—		(1,653)
Share-based payment expense	—		—		98		—		—		98
Repurchases of common stock	(41)		(21)		(214)		(4,090)		—		(4,325)
Issuance of common stock under share-based payment plans	3		1		116		—		—		117
Balance January 31, 2020	**763**	**$**	**381**	**$**	**—**	**$**	**1,727**	**$**	**(136)**	**$**	**1,972**
Net earnings	—		—		—		5,835		—		5,835
Cash dividends declared, $2.30 per share	—		—		—		(1,724)		—		(1,724)
Share-based payment expense	—		—		155		—		—		155
Repurchases of common stock	(34)		(16)		(214)		(4,721)		—		(4,951)
Issuance of common stock under share-based payment plans	2		1		149		—		—		150
Balance January 29, 2021	**731**	**$**	**366**	**$**	**90**	**$**	**1,117**	**$**	**(136)**	**$**	**1,437**

See accompanying notes to consolidated financial statements.

Lowe’s Companies, Inc.
Consolidated Statements of Cash Flows
(In millions)

	Fiscal Years Ended		
	January 29, 2021	**January 31, 2020**	**February 1, 2019**
Cash flows from operating activities:			
Net earnings	$ 5,835	$ 4,281	$ 2,314
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	1,594	1,410	1,607
Noncash lease expense	479	468	—
Deferred income taxes	(108)	177	(151)
Loss on property and other assets – net	139	117	630
Impairment of goodwill	—	—	952
Loss on extinguishment of debt	1,060	—	—
Share-based payment expense	155	98	74
Changes in operating assets and liabilities:			
Merchandise inventory – net	(2,967)	(600)	(1,289)
Other operating assets	326	(364)	(101)
Accounts payable	3,211	(637)	1,720
Deferred revenue	512	(15)	23
Other operating liabilities	813	(639)	414
Net cash provided by operating activities	**11,049**	**4,296**	**6,193**
Cash flows from investing activities:			
Purchases of investments	(3,094)	(743)	(1,373)
Proceeds from sale/maturity of investments	2,926	695	1,393
Capital expenditures	(1,791)	(1,484)	(1,174)
Proceeds from sale of property and other long-term assets	90	163	76
Other – net	(25)	—	(2)
Net cash used in investing activities	**(1,894)**	**(1,369)**	**(1,080)**
Cash flows from financing activities:			
Net change in commercial paper	(941)	220	(415)
Net proceeds from issuance of debt	7,929	3,972	—
Repayment of debt	(5,618)	(1,113)	(326)
Proceeds from issuance of common stock under share-based payment plans	152	118	114
Cash dividend payments	(1,704)	(1,618)	(1,455)
Repurchases of common stock	(4,971)	(4,313)	(3,037)
Other – net	(38)	(1)	(5)
Net cash used in financing activities	**(5,191)**	**(2,735)**	**(5,124)**
Effect of exchange rate changes on cash	**10**	**1**	**(12)**
Net increase/(decrease) in cash and cash equivalents, including cash classified within current assets held for sale	3,974	193	(23)
Less: Net decrease/(increase) in cash classified within current assets held for sale	—	12	(54)
Net increase/(decrease) in cash and cash equivalents	3,974	205	(77)
Cash and cash equivalents, beginning of year	716	511	588
Cash and cash equivalents, end of year	**$ 4,690**	**$ 716**	**$ 511**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 29, 2021, JANUARY 31, 2020 AND FEBRUARY 1, 2019

NOTE 1: Summary of Significant Accounting Policies

Lowe's Companies, Inc. and subsidiaries (the Company) is the world's second-largest home improvement retailer and operated 1,974 stores in the United States and Canada at January 29, 2021. Below are those accounting policies considered by the Company to be significant.

Fiscal Year - The Company's fiscal year ends on the Friday nearest the end of January. Each of the fiscal years presented contained 52 weeks. All references herein for the years 2020, 2019, and 2018 represent the fiscal years ended January 29, 2021, January 31, 2020, and February 1, 2019, respectively.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned or controlled operating subsidiaries. All intercompany accounts and transactions have been eliminated.

Impacts of COVID-19 - On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. In response to the COVID-19 pandemic, federal, state and local governments put in place travel restrictions, quarantines, "shelter-in-place" orders, and various other restrictive measures in an attempt to control the spread of the disease. Such restrictions or orders have resulted in, and continue to result in, business closures, work stoppages, slowdowns and delays, among other effects that impact the Company's operations, as well as customer demand and the operations of our suppliers.

At the onset of the pandemic, the Company implemented a number of measures to facilitate a safer store environment and to provide support for its associates, customers and community. During the first quarter, the Company expanded associate benefits in response to COVID-19 to provide additional paid time off, special payments to hourly associates, temporary wage increases and other benefits. During the remainder of fiscal 2020, the Company provided additional bonus payments to hourly associates, in addition to continued enhanced cleaning protocols and charitable contributions. These actions resulted in $1.2 billion of expense included in selling, general and administrative (SG&A) expense in the consolidated statements of earnings for the fiscal year ended January 29, 2021.

Also, in response to the uncertainties surrounding COVID-19, during the first quarter of 2020, the Company took proactive steps to further enhance its liquidity position by temporarily suspending its share repurchase program, increasing the capacity of its revolving credit facilities and the associated commercial paper program, as well as issuing senior notes in March 2020. During the third quarter, the Company reinstated its previously authorized share repurchase program.

The Company continues to evaluate the carrying amounts of its long-lived assets whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable, including potential market impacts from the COVID-19 pandemic. The Company performed its quarterly assessments of long-lived assets and did not record any material long-lived asset impairments.

In addition, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), which was enacted on March 27, 2020, includes measures to assist companies in response to the COVID-19 pandemic. In accordance with the CARES Act, the Company has deferred the payment of qualifying employer payroll taxes which are required to be paid over two years, with half due by December 31, 2021, and the other half due by December 31, 2022. As of January 29, 2021, the Company deferred $481 million of qualifying employer payroll taxes, of which $241 million is included in accrued compensation and employee benefits, and $240 million is included in other liabilities in the consolidated balance sheet and included in cash flows from other operating liabilities in the consolidated statement of cash flows.

Foreign Currency - The functional currencies of the Company's international subsidiaries are generally the local currencies of the countries in which the subsidiaries are located. Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations and cash flows are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is included as a component of shareholders' equity in accumulated other comprehensive loss. Gains and losses from foreign currency transactions are included in SG&A expense.

Use of Estimates - The preparation of the Company's financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosures of contingent assets and liabilities. The Company bases these estimates on historical results and various other assumptions believed to be reasonable, all of which form the basis for making estimates concerning the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased. Cash and cash equivalents are carried at amortized cost on the consolidated balance sheets. The majority of payments due from financial institutions for the settlement of credit card and debit card transactions process within two business days and are, therefore, classified as cash and cash equivalents.

Investments - Investments generally consist of agency securities, corporate debt securities, governmental securities, and money market funds, which are classified as available-for-sale. Available-for-sale debt securities are recorded at fair value, and unrealized gains and losses are recorded, net of tax, as a component of accumulated other comprehensive loss.

The proceeds from sales of available-for-sale debt securities were $42 million, $121 million, and $506 million for 2020, 2019, and 2018, respectively. Gross realized gains and losses on the sale of available-for-sale debt securities were not significant for any of the periods presented.

Investments with a stated maturity date of one year or less from the balance sheet date or that are expected to be used in current operations are classified as short-term investments. All other investments are classified as long-term. Investments classified as long-term at January 29, 2021, will mature in one to four years, based on stated maturity dates.

The Company classifies as investments restricted balances primarily pledged as collateral for the Company's extended protection plan program. Restricted balances included in short-term investments were $506 million at January 29, 2021, and $160 million at January 31, 2020. Restricted balances included in long-term investments were $200 million at January 29, 2021, and $372 million at January 31, 2020.

Merchandise Inventory - The majority of the Company's inventory is stated at the lower of cost and net realizable value using the first-in, first-out method of inventory accounting. Inventory for certain subsidiaries representing approximately 7% and 6% of the consolidated inventory balances as of January 29, 2021 and January 31, 2020, respectively, are stated at lower of cost and net realizable value using the weighted average cost method. The cost of inventory includes certain costs associated with the preparation of inventory for resale, including distribution center costs, and is net of vendor funds.

The Company records an inventory reserve for the anticipated loss associated with selling inventories below cost. This reserve is based on management's current knowledge with respect to inventory levels, sales trends, and historical experience. Management does not believe the Company's merchandise inventories are subject to significant risk of obsolescence in the near term, and management has the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns could result in the need for additional reserves. The Company also records an inventory reserve for the estimated shrinkage between physical inventories. This reserve is based primarily on actual shrink results from previous physical inventories. Changes in the estimated shrink reserve are made based on the timing and results of physical inventories.

The Company receives funds from vendors in the normal course of business, principally as a result of purchase volumes, sales, early payments, or promotions of vendors' products. Generally, these vendor funds do not represent the reimbursement of specific, incremental, and identifiable costs incurred by the Company to sell the vendor's product. Therefore, the Company treats these funds as a reduction in the cost of inventory and are recognized as a reduction of cost of sales when the inventory is sold. Funds that are determined to be reimbursements of specific, incremental, and identifiable costs incurred to sell vendors' products are recorded as an offset to the related expense. The Company develops accrual rates for vendor funds based on the provisions of the agreements in place. Due to the complexity and diversity of the individual vendor agreements, the Company performs analyses and reviews historical trends throughout the year and confirms actual amounts with select vendors to ensure the amounts earned are appropriately recorded. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected annual purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met.

Derivative Financial Instruments - The Company is exposed to the impact of changes in foreign currency exchange rates, benchmark interest rates, and the prices of commodities used in the normal course of business. The Company occasionally utilizes derivative financial instruments to manage certain business risks. All derivative financial instruments are recognized at their fair values as either assets or liabilities at the balance sheet date and reported on a gross basis.

The Company held forward interest rate swap agreements to hedge its exposure to changes in benchmark interest rates on forecasted debt issuances as of January 29, 2021 and January 31, 2020. The cash flows related to forward interest rate swap agreements are included within operating activities in the consolidated statements of cash flows. The Company accounts for these contracts as cash flow hedges, thus the effective portion of gains and losses resulting from changes in fair value are recognized in other comprehensive income/(loss), net of tax effects, in the consolidated statements of comprehensive income and is recognized in earnings when the underlying hedged transaction impacts the consolidated statements of earnings.

To hedge the economic risk of changes in value of the October 2020 cash tender offers prior to its pricing date, the Company entered into reverse treasury lock derivative contracts which were not designated as hedging instruments. The cash flows related to these contracts are included within financing activities in the consolidated statements of cash flows.

Credit Programs and Sale of Business Accounts Receivable - The Company has branded and private label proprietary credit cards which generate sales that are not reflected in receivables. Under an agreement with Synchrony Bank (Synchrony), credit is extended directly to customers by Synchrony. All credit program-related services are performed and controlled directly by Synchrony. The Company has the option, but no obligation, to purchase the receivables at the end of the agreement.

The Company also has an agreement with Synchrony under which Synchrony purchases at face value commercial business accounts receivable originated by the Company and services these accounts. The Company primarily accounts for these transfers as sales of the accounts receivable. When the Company transfers its commercial business accounts receivable, it retains certain interests in those receivables, including the funding of a loss reserve and its obligation related to Synchrony's ongoing servicing of the receivables sold. Any gain or loss on the sale is determined based on the previous carrying amounts of the transferred assets allocated at fair value between the receivables sold and the interests retained. Fair value is based on the present value of expected future cash flows, taking into account the key assumptions of anticipated credit losses, payment rates, late fee rates, Synchrony's servicing costs, and the discount rate commensurate with the uncertainty involved. Due to the short-term nature of the receivables sold, changes to the key assumptions would not materially impact the recorded gain or loss on the sales of receivables or the fair value of the retained interests in the receivables.

Total commercial business accounts receivable sold to Synchrony were $3.3 billion in 2020, $3.2 billion in 2019, and $3.1 billion in 2018. The Company recognized losses of $54 million in 2020, $41 million in 2019, and $41 million in 2018 on these receivable sales, which primarily relates to servicing costs that are remitted to Synchrony monthly.

Property and Depreciation - Property is recorded at cost. Costs associated with major additions are capitalized and depreciated. Capital assets are expected to yield future benefits and have original useful lives which exceed one year. The total cost of a capital asset generally includes all applicable sales taxes, delivery costs, installation costs, and other appropriate costs incurred by the Company, including interest in the case of self-constructed assets. Upon disposal, the cost of properties and related accumulated depreciation is removed from the accounts, with gains and losses reflected in SG&A expense in the consolidated statements of earnings.

Property consists of land, buildings and building improvements, equipment, finance lease assets, and construction in progress. Buildings and building improvements includes owned buildings, as well as buildings under finance lease and leasehold improvements. Equipment primarily includes store racking and displays, computer hardware and software, forklifts, vehicles, finance lease equipment, and other store equipment. In addition, excess properties held for use are included within land and buildings.

Depreciation is recognized over the estimated useful lives of the depreciable assets. Assets are depreciated using the straight-line method. Leasehold improvements and finance lease assets are depreciated and amortized, respectively, over the shorter of their estimated useful lives or the term of the related lease. The amortization of these assets is included in depreciation and amortization expense in the consolidated statements of earnings.

Long-Lived Asset Impairment - The carrying amounts of long-lived assets are reviewed whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. A potential impairment has occurred for long-lived assets held-for-use if projected future undiscounted cash flows expected to result from the use and eventual disposition of the assets are less than the carrying amounts of the assets. The carrying value of a location’s asset group includes inventory, property, operating and finance lease right-of-use assets, and operating liabilities, including inventory payables, salaries payable and operating lease liabilities. Financial and non-operating liabilities are excluded from the carrying value of the asset group. An impairment loss is recorded for long-lived assets held-for-use when the carrying amount of the asset is not recoverable and exceeds its fair value.

Excess properties that are expected to be sold within the next 12 months and meet the other relevant held-for-sale criteria are classified as long-lived assets held-for-sale. Excess properties consist primarily of retail outparcels and property associated with relocated or closed locations. An impairment loss is recorded for long-lived assets held-for-sale when the carrying amount of the asset exceeds its fair value less cost to sell. A long-lived asset is not depreciated while it is classified as held-for-sale.

For long-lived assets to be abandoned, the Company considers the asset to be disposed of when it ceases to be used. Until it ceases to be used, the Company continues to classify the asset as held-for-use and tests for potential impairment accordingly. If the Company commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, its depreciable life is evaluated.

Impairment losses are included in SG&A expense in the consolidated statements of earnings. Fair value measurements associated with long-lived asset impairments are further described in Note 3 to the consolidated financial statements.

Goodwill - Goodwill is the excess of the purchase price over the fair value of identifiable assets acquired, less liabilities assumed, in a business combination. The Company reviews goodwill for impairment at the reporting unit level, which is the operating segment level or one level below the operating segment level. Goodwill is not amortized but is evaluated for impairment at least annually on the first day of the fourth quarter or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount may not be recoverable. The evaluation begins with a qualitative assessment to determine whether a quantitative impairment test is necessary. If, after assessing qualitative factors, we determine it is more likely than not that the fair value of the reporting unit is less than the carrying amount, then the quantitative goodwill impairment test is performed.

The quantitative goodwill impairment test used to identify potential impairment compares the fair value of a reporting unit with its carrying amount, including goodwill. Fair value represents the price a market participant would be willing to pay in a potential sale of the reporting unit and is based on a combination of an income approach, based on discounted future cash flows, and a market approach, based on market multiples applied to free cash flow. If the fair value exceeds carrying value, then no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Any impairment identified is included within SG&A expense in the consolidated statements of earnings. The income tax effect from any tax deductible goodwill on the carrying amount of the reporting unit, if applicable, is considered in determining the goodwill impairment loss.

A reporting unit is an operating segment or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. During fiscal 2020, goodwill was allocated to the U.S. Home Improvement reporting unit.

The changes in the carrying amount of goodwill for 2020, 2019, and 2018 were as follows:

	Years Ended		
(In millions)	January 29, 2021	January 31, 2020	February 1, 2019
Goodwill, balance at beginning of year	**$ 303**	**$ 303**	**$ 1,307**
Acquisitions	8	—	—
Impairment	—	—	(952)
Other adjustments [1]	—	—	(52)
Goodwill, balance at end of year	**$ 311**	**$ 303**	**$ 303**

[1] *Other adjustments primarily consist of changes in the goodwill balance as a result of foreign currency translation.*

The Company's annual goodwill impairment analysis performed during the fourth quarter of fiscal 2018 included a quantitative analysis of the Canada-Retail and Canada-Distribution reporting units. The Company classified these fair value measurements as Level 3. The Company performed a discounted cash flow analysis and market multiple analysis for the Canada-Retail and Canada-Distribution reporting units. These discounted cash flow models included management assumptions for expected sales growth, margin expansion, operational leverage, capital expenditures, and overall operational forecasts. The market multiple analysis included historical and projected performance, market capitalization, volatility, and multiples for industry peers. These analyses led to the conclusion that the fair value of these reporting units was less than their carrying values by an amount that exceeded the carrying value of goodwill, primarily driven by a softening outlook for the Canadian housing market.

Accordingly, the full carrying value of $952 million relating to the Canadian reporting units' goodwill was impaired during the fourth quarter of 2018.

Gross carrying amounts and cumulative goodwill impairment losses are as follows:

	January 29, 2021		January 31, 2020	
(In millions)	Gross Carrying Amount	Cumulative Impairment	Gross Carrying Amount	Cumulative Impairment
Goodwill	$ 1,310	$ (999)	$ 1,302	$ (999)

Leases - The Company leases certain retail stores, warehouses, distribution centers, office space, land and equipment under finance and operating leases. Lease commencement occurs on the date the Company takes possession or control of the property or equipment. Original terms for facility-related leases are generally between five and twenty years. These leases generally contain provisions for four to six renewal options of five years each. Original terms for equipment-related leases, primarily material handling equipment and vehicles, are generally between one and seven years. Some of the Company's leases also include rental escalation clauses and/or termination provisions. Renewal options and termination options are included in the determination of lease payments when management determines the options are reasonably certain of exercise, considering financial performance, strategic importance and/or invested capital. Leases with an original term of 12 months or less are not recognized on the Company's balance sheet, and the lease expense related to those short-term leases is recognized over the lease term. The Company does not account for lease and non-lease (e.g. common area maintenance) components of contracts separately for any underlying asset class.

If readily determinable, the rate implicit in the lease is used to discount lease payments to present value; however, substantially all of the Company's leases do not provide a readily determinable implicit rate. When the implicit rate is not determinable, the Company's estimated incremental borrowing rate is utilized, determined on a collateralized basis, to discount lease payments based on information available at lease commencement.

The Company's real estate leases typically require payment of common area maintenance and real estate taxes which represent the majority of variable lease costs. Certain lease agreements also provide for variable rental payments based on sales performance in excess of specified minimums, usage measures, or changes in the consumer price index. Variable rent payments based on future performance, usage, or changes in indices were not significant for any of the periods presented. Variable lease costs are excluded from the present value of lease obligations.

The Company's lease agreements do not contain any material restrictions, covenants, or any material residual value guarantees. The Company subleases certain properties that are not used in its operations. Sublease income was not significant for any of the periods presented.

Accounts Payable - The Company has agreements with third parties to provide accounts payable tracking systems which facilitate participating suppliers' ability to finance payment obligations from the Company with designated third-party financial institutions. Participating suppliers may, at their sole discretion, make offers to finance one or more payment obligations of the Company prior to their scheduled due dates at a discounted price to participating financial institutions. The Company's goal in entering into these arrangements is to capture overall supply chain savings in the form of pricing, payment terms, or vendor funding, created by facilitating suppliers' ability to finance payment obligations at more favorable discount rates, while providing them with greater working capital flexibility.

The Company's obligations to its suppliers, including amounts due and scheduled payment dates, are not impacted by suppliers' decisions to finance amounts under these arrangements. However, the Company's right to offset balances due from suppliers against payment obligations is restricted by these arrangements for those payment obligations that have been financed by suppliers. The Company's outstanding payment obligations with participating suppliers were $2.5 billion as of January 29, 2021, and $1.9 billion as of January 31, 2020, and are included in accounts payable on the consolidated balance sheets, and participating suppliers financed $1.7 billion and $1.3 billion, respectively, of those payment obligations to participating financial institutions. Total payment obligations that were placed and settled on the accounts payable tracking systems were $9.7 billion and $8.7 billion for each of the years ended January 29, 2021 and January 31, 2020, respectively.

Other Current Liabilities - Other current liabilities on the consolidated balance sheets consist of:

(In millions)		January 29, 2021		January 31, 2020
Accrued dividends	$	440	$	420
Self-insurance liabilities		435		501
Sales tax liabilities		256		153
Sales return reserve		252		194
Accrued interest		250		221
Income taxes payable		168		15
Accrued property taxes		120		104
Other		1,314		973
Total	**$**	**3,235**	**$**	**2,581**

Self-Insurance - The Company is self-insured for certain losses relating to workers' compensation, automobile, property, and general and product liability claims. The Company has insurance coverage to limit the exposure arising from these claims. The Company is also self-insured for certain losses relating to extended protection plans, as well as medical and dental claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon management's estimates of the discounted ultimate cost for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. Although management believes it has the ability to reasonably estimate losses related to claims, it is possible that actual results could differ from recorded self-insurance liabilities. Total self-insurance liability, including the current and non-current portions, was $1.1 billion and $1.1 billion at January 29, 2021 and January 31, 2020, respectively.

The Company provides surety bonds issued by insurance companies to secure payment of workers' compensation liabilities as required in certain states where the Company is self-insured. Outstanding surety bonds relating to self-insurance were $270 million and $262 million at January 29, 2021 and January 31, 2020, respectively.

Income Taxes - The Company establishes deferred income tax assets and liabilities for temporary differences between the tax and financial accounting bases of assets and liabilities. The tax effects of such differences are reflected in the consolidated balance sheets at the enacted tax rates expected to be in effect when the differences reverse. A valuation allowance is recorded to reduce the carrying amount of deferred tax assets if it is more likely than not that all or a portion of the asset will not be realized. The tax balances and income tax expense recognized by the Company are based on management's interpretation of the tax statutes of multiple jurisdictions.

The Company establishes a liability for tax positions for which there is uncertainty as to whether or not the position will be ultimately sustained. The Company includes interest related to tax issues as part of net interest on the consolidated financial statements. The Company records any applicable penalties related to tax issues within the income tax provision.

Shareholders' Equity - The Company has a share repurchase program that is executed through purchases made from time to time either in the open market or through private market transactions. Shares purchased under the repurchase program are retired and returned to authorized and unissued status. Any excess of cost over par value is charged to additional paid-in capital to the extent that a balance is present. Once additional paid-in capital is fully depleted, remaining excess of cost over par value is charged to retained earnings.

Revenue Recognition - The Company recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. A description of the Company's principle revenue generating activities is as follows:

- *Products* - Revenue from products primarily relates to in-store and online merchandise purchases, which are recognized at the point in time when the customer obtains control of the merchandise. This occurs at the time of in-store purchase or delivery of the product to the customer. A provision for anticipated merchandise returns is provided through a reduction of sales and cost of sales in the period that the related sales are recorded. The merchandise return reserve is presented on a gross basis, with a separate asset and liability included in the consolidated balance sheets.

- *Services* - Revenues from services primarily relate to professional installation services the Company provides through subcontractors related to merchandise purchased by a customer. In certain instances, installation services include materials provided by the subcontractor, and both product and installation are included in service revenue. The

Company recognizes revenue associated with services as they are rendered, and the majority of services are completed within one week from initiation.

Deferred revenue is presented for merchandise that has not yet transferred control to the customer and for services that have not yet been provided, but for which tender has been accepted. Deferred revenue is recognized in sales either at a point in time when the customer obtains control of merchandise through pickup or delivery, or over time as services are provided to the customer. In addition, the Company defers revenues from stored-value cards, which include gift cards and returned merchandise credits, and recognizes revenue into sales when the cards are redeemed.

The Company also defers revenues for its separately-priced extended protection plan contracts, which is a Lowe's-branded program for which the Company is ultimately self-insured. The Company recognizes revenue from extended protection plan sales on a straight-line basis over the respective contract term. Extended protection plan contract terms primarily range from one to five years from the date of purchase or the end of the manufacturer's warranty, as applicable.

Cost of Sales and Selling, General and Administrative Expenses - The following lists the primary costs classified in each major expense category:

Cost of Sales

- Total cost of products sold, including:
  - Purchase costs, net of vendor funds;
  - Freight expenses associated with moving merchandise inventories from vendors to selling locations;
  - Costs associated with operating the Company's distribution network, including payroll and benefit costs and occupancy costs;
  - Depreciation of assets associated with the Company's distribution network;
- Costs of installation services provided;
- Costs associated with shipping and handling to customers, as well as directly from vendors to customers by third parties;
- Depreciation of assets used in delivering product to customers;
- Costs associated with inventory shrinkage and obsolescence;
- Costs of services performed under the extended protection plan.

Selling, General and Administrative

- Payroll and benefit costs for retail and corporate employees;
- Occupancy costs of retail and corporate facilities;
- Advertising;
- Store environment costs;
- Tender costs, including bank charges, costs associated with credit card interchange fees;
- Costs associated with self-insured plans, and premium costs for stop-loss coverage and fully insured plans;
- Long-lived asset impairment losses, gains/losses on disposal of assets, and exit costs;
- Other administrative costs, such as supplies, and travel and entertainment.

Advertising - Costs associated with advertising are charged to expense as incurred. Advertising expenses were $798 million, $871 million, and $963 million in 2020, 2019, and 2018, respectively.

Comprehensive Income - The Company reports comprehensive income in its consolidated statements of comprehensive income and consolidated statements of shareholders' equity. Comprehensive income represents changes in shareholders' equity from non-owner sources and is comprised of net earnings adjusted primarily for foreign currency translation adjustments and cash flow hedge derivative contracts. Net foreign currency translation losses, net of tax, classified in accumulated other comprehensive loss were $37 million, $115 million, and $209 million at January 29, 2021, January 31, 2020, and February 1, 2019, respectively. Net cash flow hedge losses, net of tax, classified in accumulated other comprehensive loss were $103 million, $24 million, and $1 million at January 29, 2021, January 31, 2020, and February 1, 2019, respectively.

Segment Information - The Company's home improvement retail operations represent a single reportable segment. Key operating decisions are made at the Company level in order to maintain a consistent retail customer experience. The Company's home improvement retail and hardware stores, in addition to online selling channels, sell similar products and services, use similar processes to sell those products and services, and sell their products and services to similar classes of customers. In addition, the Company's operations exhibit similar long-term economic characteristics. The amounts of long-lived assets and net sales outside of the U.S. were approximately 7.5% and 5.9%, respectively, at January 29, 2021. The amounts of long-lived assets and net sales outside of the U.S. were approximately 7.7% and 6.9%, respectively, at January 31, 2020. The amounts of long-lived assets and net sales outside of the U.S. were approximately 9.1% and 7.6%, respectively, at February 1, 2019.

Reclassifications - Certain prior period amounts have been reclassified to conform to current period presentation, including the separate disclosure of cash flow hedges – net of tax on the consolidated statements of comprehensive income, the inclusion of goodwill within other assets on the consolidated balance sheets, the reclassification of excess property from other assets to property, less accumulated depreciation on the consolidated balance sheets, and the separate disclosure of changes in deferred revenue within operating activities on the consolidated statements of cash flows.

Accounting Pronouncements Recently Adopted - Effective February 2, 2019, the Company adopted ASU 2016-02, *Leases (Topic 842)*, and all related amendments, using the optional transition election to not restate comparative periods for the impact of adopting the standard and recognized the cumulative impact of adoption in the opening balance of retained earnings. The Company elected the package of transition expedients available for expired or existing contracts, which allowed the carry-forward of historical assessments of (1) whether contracts are or contain leases, (2) lease classification, and (3) initial direct costs. Adoption of the standard resulted in the recording of additional net lease-related assets and lease-related liabilities of approximately $3.6 billion and $3.9 billion, respectively, as of February 2, 2019. The difference between the additional lease assets and lease liabilities, net of the $87 million deferred tax impact, was $263 million and was recorded as an adjustment to retained earnings. This adjustment to retained earnings primarily represents the write-off of right-of-use assets associated with closed locations, net of previously established store closing lease obligations as well as the derecognition of build-to-suit leases. The adoption of this standard by the Company did not have a material impact on its consolidated statements of earnings, comprehensive income or cash flows and had no impact on the Company's debt covenant compliance under its current agreements. See Note 5 for additional details of the Company's leases.

Accounting Pronouncements Not Yet Adopted - In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-04, *Reference Rate Reform (Topic 848): Facilitation of Effects of Reference Rate Reform on Financial Reporting*. The ASU, and subsequent clarifications, provide practical expedients for contract modification accounting related to the transition away from the London Interbank Offered Rate (LIBOR) and other interbank offering rates to alternative reference rates. The expedients are applicable to contract modifications made and hedging relationships entered into on or before December 31, 2022. The Company intends to use the expedients where needed for reference rate transition. The Company continues to evaluate this standard update and does not currently expect a material impact to the Company's financial statements or disclosures.

Recent accounting pronouncements pending adoption not discussed in this Form 10-K are either not applicable to the Company or are not expected to have a material impact on the Company.

NOTE 2: Revenue

Net sales consists primarily of revenue, net of sales tax, associated with contracts with customers for the sale of goods and services in amounts that reflect consideration the Company is entitled to in exchange for those goods and services.

The following table presents the Company's sources of revenue:

	Years Ended		
(In millions)	January 29, 2021	January 31, 2020	February 1, 2019
Products	$ 86,046	$ 68,377	$ 67,197
Services	1,949	2,112	2,539
Other	1,602	1,659	1,573
Net sales	**$ 89,597**	**$ 72,148**	**$ 71,309**

Anticipated sales returns reflected in other current liabilities were $252 million at January 29, 2021, and $194 million at January 31, 2020. The associated right of return assets reflected in other current assets were $164 million at January 29, 2021, and $129 million at January 31, 2020.

Deferred revenue - retail

Deferred revenues associated with amounts received for which customers have not taken possession of the merchandise or for which installation has not yet been completed were $1.0 billion at January 29, 2021, and $685 million at January 31, 2020. The majority of revenue for goods and services is recognized in the quarter following revenue deferral.

Deferred revenue - stored-value cards

The deferred revenues associated with outstanding stored-value cards (gift cards and returned merchandise credits) were $562 million and $534 million at January 29, 2021 and January 31, 2020, respectively, and these amounts are included in deferred revenue on the consolidated balance sheets. Amounts recognized as breakage were insignificant for the years ended January 29, 2021, January 31, 2020, and February 1, 2019.

Deferred revenue - extended protection plans

The deferred revenues from separately priced extended protection plans were $1.0 billion at January 29, 2021, and $894 million at January 31, 2020. Previously deferred revenue recognized into sales were $430 million for the fiscal year ended January 29, 2021, $408 million for the fiscal year ended January 31, 2020, and $390 million for the fiscal year ended February 1, 2019. Incremental direct acquisition costs associated with the sale of extended protection plans for contracts greater than one year are also deferred and recognized as expense on a straight-line basis over the respective contract term and were insignificant at January 29, 2021, January 31, 2020, and February 1, 2019.

The liability for extended protection plan claims incurred is included in other current liabilities on the consolidated balance sheets and was not material in any of the periods presented. Expenses for claims are recognized when incurred and totaled $158 million for the fiscal year ended January 29, 2021, $184 million for the fiscal year ended January 31, 2020, and $183 million for the fiscal year ended February 1, 2019.

Disaggregation of Revenues

The following table presents the Company’s net sales disaggregated by merchandise division:

	Years Ended					
	January 29, 2021		**January 31, 2020**		**February 1, 2019**	
(In millions)	**Total Sales**	**%**	**Total Sales**	**%**	**Total Sales**	**%**
Home Décor [1]	$ 31,577	35 %	$ 26,238	36 %	$ 25,338	35 %
Building Products [2]	28,175	32	22,435	31	22,626	32
Hardlines [3]	27,802	31	21,382	30	20,545	29
Other	2,043	2	2,093	3	2,800	4
Total	**$ 89,597**	**100 %**	**$ 72,148**	**100 %**	**$ 71,309**	**100 %**

Note: Merchandise division net sales for prior periods have been reclassified to conform to the current year presentation.

1 *Home Décor includes the following product categories: Appliances, Décor, Flooring, Kitchens & Bath, and Paint*

2 *Building Products includes the following product categories: Building Materials, Electrical, Lighting, Lumber, Millwork, and Rough Plumbing*

3 *Hardlines includes the following product categories: Hardware, Lawn & Garden, Seasonal & Outdoor Living, and Tools*

The following table presents the Company’s net sales disaggregated by geographical area:

	Years Ended		
(In millions)	**January 29, 2021**	**January 31, 2020**	**February 1, 2019**
United States	$ 84,303	$ 67,147	$ 65,872
International	5,294	5,001	5,437
Net Sales	**$ 89,597**	**$ 72,148**	**$ 71,309**

NOTE 3: Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance for fair value measurements establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

- Level 1 **-** inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities
- Level 2 **-** inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
- Level 3 **-** inputs to the valuation techniques that are unobservable for the assets or liabilities

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The Company's available-for-sale debt securities represented the only significant assets measured at fair value on a recurring basis for the fiscal years ended January 29, 2021 and January 31, 2020. The following table presents the Company's financial assets measured at fair value on a recurring basis. The fair values of these instruments approximate amortized cost.

		Fair Value Measurements at	
(In millions)	Measurement Level	January 29, 2021	January 31, 2020
Assets:			
Short-term investments:			
Available-for-sale debt securities:			
U.S. Treasury securities	Level 1	$ 223	$ 13
Money market funds	Level 1	109	105
Commercial Paper	Level 2	97	—
Corporate debt securities	Level 2	47	23
Agency securities	Level 2	30	19
Total short-term investments		**$ 506**	**$ 160**
Long-term investments:			
Available-for-sale debt securities:			
U.S. Treasury securities	Level 1	$ 129	$ 280
Corporate debt securities	Level 2	58	62
Agency securities	Level 2	—	30
Municipal obligations	Level 2	13	—
Total long-term investments		**$ 200**	**$ 372**
Other assets:			
Derivative instruments			
Forward interest rate swaps	Level 2	$ 4	$ —
Total other assets		**$ 4**	**$ —**
Liabilities:			
Other current liabilities:			
Derivative instruments			
Forward interest rate swaps	Level 2	$ 8	$ 11
Total other current liabilities		**$ 8**	**$ 11**

There were no transfers between Levels 1, 2, or 3 during any of the periods presented.

When available, quoted prices were used to determine fair value. When quoted prices in active markets were available, investments were classified within Level 1 of the fair value hierarchy. When quoted prices in active markets were not available, fair values were determined using pricing models, and the inputs to those pricing models were based on observable market inputs. The inputs to the pricing models were typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

For the fiscal years ended January 29, 2021 and January 31, 2020, the Company had no material measurements of assets and liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

Other Fair Value Disclosures

The Company's financial assets and liabilities not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, accounts payable, short-term borrowings, and long-term debt and are reflected in the financial statements at cost. With the exception of long-term debt, cost approximates fair value for these items due to their short-term nature. The fair values of the Company's unsecured notes were estimated using quoted market prices. The fair values of the Company's mortgage notes were estimated using discounted cash flow analyses, based on the future cash outflows associated with these arrangements and discounted using the applicable incremental borrowing rate.

Carrying amounts and the related estimated fair value of the Company's long-term debt, excluding finance lease obligations, are as follows:

	January 29, 2021		January 31, 2020	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Unsecured notes (Level 1)	$ 21,121	$ 24,349	$ 16,648	$ 18,808
Mortgage notes (Level 2)	5	5	5	6
Long-term debt (excluding finance lease obligations)	**$ 21,126**	**$ 24,354**	**$ 16,653**	**$ 18,814**

NOTE 4: Property and Accumulated Depreciation

Property is summarized by major class in the following table:

(In millions)	Estimated Depreciable Lives, In Years	January 29, 2021	January 31, 2020 [1]
Cost:			
Land	N/A	$ 7,315	$ 7,321
Buildings and building improvements	5-40	18,090	17,875
Equipment	2-15	10,466	10,377
Construction in progress	N/A	831	506
Total cost		**36,702**	**36,079**
Accumulated depreciation		(17,547)	(17,310)
Property, less accumulated depreciation		**$ 19,155**	**$ 18,769**

[1] *Effective as of January 29, 2021, excess property amounts previously reported in other assets were reclassified to property, less accumulated depreciation. Prior year amounts have been reclassified to conform to current period presentation.*

As of January 29, 2021 and January 31, 2020, included in property, less accumulated depreciation are assets under finance lease of $661 million less accumulated depreciation of $122 million and $597 million less accumulated depreciation of $42 million, respectively. The related amortization expense for assets under finance leases are included in depreciation and amortization expense. The Company recognized depreciation and amortization expense, inclusive of amounts presented in cost of sales, of $1.5 billion in 2020 and $1.4 billion in 2019 and $1.6 billion in 2018.

NOTE 5: Leases

The lease-related assets and liabilities recorded on the balance sheet are summarized in the following table:

Leases (In millions)	Classification	January 29, 2021	January 31, 2020
Assets			
Operating lease assets	Operating lease right-of-use assets	$ 3,832	$ 3,891
Finance lease assets	Property, less accumulated depreciation [1]	539	555
Total lease assets		**4,371**	**4,446**
Liabilities			
Current			
Operating	Current operating lease liabilities	541	501
Finance	Current maturities of long-term debt	86	72
Noncurrent			
Operating	Noncurrent operating lease liabilities	3,890	3,943
Finance	Long-term debt, excluding current maturities	564	612
Total lease liabilities		**$ 5,081**	**$ 5,128**

[1] *Finance lease assets are recorded net of accumulated amortization of $122 million as of January 29, 2021, and $42 million as of January 31, 2020.*

The table below presents the lease costs for finance and operating leases for fiscal years ended January 29, 2021 and January 31, 2020:

Lease Cost (In millions)	Years Ended January 29, 2021	Years Ended January 31, 2020
Finance lease cost		
Amortization of leased assets	$ 82	$ 45
Interest on lease liabilities	32	30
Operating lease cost [1]	659	674
Variable lease cost	244	224
Total lease cost	**$ 1,017**	**$ 973**

[1] *Includes short-term leases and sublease income, which are immaterial.*

The future minimum rental payments required under operating and finance lease obligations as of January 29, 2021, having initial or remaining non-cancelable lease terms in excess of one year are summarized as follows:

Maturity of lease liabilities (In millions)		**Operating Leases [1]**		**Finance Leases [2]**		**Total**
2021	$	684	$	113	$	797
2022		749		118		867
2023		664		113		777
2024		565		104		669
2025		557		91		648
After 2025		2,300		257		2,557
Total lease payments		**5,519**		**796**		**6,315**
Less: interest [3]		(1,088)		(146)		(1,234)
Present value of lease liabilities [4]	**$**	**4,431**	**$**	**650**	**$**	**5,081**

[1] *Operating lease payments include $295 million related to options to extend lease terms that are reasonably certain of being exercised and exclude $669 million of minimum lease payments for leases signed but not yet commenced.*
[2] *Finance lease payments include $11 million related to options to extend lease terms that are reasonably certain of being exercised and exclude $6 million of minimum lease payments for leases signed but not yet commenced.*
[3] *Calculated using the lease-specific incremental borrowing rate.*
[4] *Includes the current portion of $541 million for operating leases and $86 million for finance leases.*

Lease Term and Discount Rate	**January 29, 2021**	**January 31, 2020**
Weighted-average remaining lease term (years)		
Operating leases	9.61	10.25
Finance leases	7.88	9.06
Weighted-average discount rate		
Operating leases	3.88 %	4.10 %
Finance leases	5.34 %	5.64 %

Other Information		**Yea**
(In millions)		**January 29, 2021**
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows used for operating leases	$	64
Operating cash flows used for finance leases		3
Financing cash flows used for finance leases		10
Leased assets obtained in exchange for new finance lease liabilities		6
Leased assets obtained in exchange for new operating lease liabilities [1]		46

[1] *Excludes $669 million of leases signed but not yet commenced as of January 29, 2021.*

NOTE 6: Exit Activities

During fiscal years 2020, 2019, and 2018, the Company has incurred costs associated with an ongoing strategic reassessment of its business to drive an increased focus on its core home improvement operations and to improve overall operating performance and profitability. As a result of this reassessment, the Company decided to exit certain activities and close certain locations as further described below. Expenses associated with long-lived asset impairment, discontinued projects, severance, and lease obligations are included in SG&A expense in the consolidated statements of earnings. Expenses associated with accelerated depreciation are included in depreciation and amortization expense in the consolidated statements of earnings. Inventory adjustments to net realizable value are included in cost of sales in the consolidated statements of earnings.

Table of Contents

Canada Restructuring

During the third quarter of fiscal 2019, the Company began a strategic review of its Canadian operations, and as a result, recognized pre-tax charges of $53 million associated with long-lived asset impairment. Subsequent to the end of the Company's third quarter of fiscal 2019, a decision was made to close 34 under-performing stores in Canada and take additional restructuring actions to improve future sales and profitability of the Canadian operations. As a result of these actions, during fiscal 2020, the Company recognized pre-tax charges of $35 million. A summary of the significant charges associated with the restructuring of the Canadian operations, are as follows:

	Years Ended	
(In millions)	January 29, 2021	January 31,
Long-lived asset impairment	$ —	$
Severance costs	15	
Accelerated depreciation and amortization	1	
Other closing costs	19	
Total	**$ 35**	**$**

Other

During fiscal year ending February 1, 2019, the Company recorded pre-tax charges of $1.1 billion associated with its exit of Orchard Supply Hardware, the closing of 20 U.S. home improvement stores and 31 locations in Canada, the exit of the Company's Mexico operations, and the exit of other non-core activities within its U.S home improvement business.

Prior to the adoption of ASU 2016-02, *Leases (Topic 842)*, as of February 2, 2019, when locations under operating leases were closed, a liability was recognized for the fair value of future contractual obligations, including future minimum lease payments, property taxes, utilities, common area maintenance, and other ongoing expenses, net of estimated sublease income and other recoverable items. Subsequent changes to the liabilities, including a change resulting from a revision to either the timing or the amount of estimated cash flows, were recognized in the period of change.

The following table summarizes store closing lease obligations activity during the twelve months ended January 29, 2021 and January 31, 2020:

(In millions)
Accrual for exit activities, balance at February 1, 2019
ASU 2016-02 adoption impact [2]
Cash payments
Adjustments [1]
Accrual for exit activities, balance at January 31, 2020
Cash payments
Adjustments [1]
Accrual for exit activities, balance at January 29, 2021

[1] *Adjustments represent lease terminations and changes in estimates around sublease assumptions.*
[2] *Upon adoption of ASU 2016-02, Leases (Topic 842), rent liabilities previously recognized in connection with leases were included in the determination of right-of-use assets at transition.*

NOTE 7: Short-Term Borrowings

Commercial Paper Program

In March 2020, the Company entered into a $1.02 billion five-year unsecured revolving credit agreement (the 2020 Credit Agreement) with a syndicate of banks. In connection with the 2020 Credit Agreement, the Company refinanced the $250 million 364-Day Credit Agreement (2019 Credit Agreement), dated as of September 9, 2019, and terminated any commitments under the 2019 Credit Agreement as of March 23, 2020. Borrowings under the 2020

Credit Agreement will bear interest calculated according to a Base Rate or a Eurocurrency Rate, plus an applicable margin. The 2020 Credit Agreement contains customary representations, warranties and covenants for a transaction of this type. The Company was in compliance with those covenants at January 29, 2021.

In September 2018, the Company entered into a $1.75 billion five-year unsecured revolving second amended and restated credit agreement (the Second Amended and Restated Credit Agreement) with a syndicate of banks. In January 2019, the Company increased the aggregate availability under the Second Amended and Restated Credit Agreement by $230 million for a total of $1.98 billion available. Borrowings under the Second Amended and Restated Credit Agreement will bear interest calculated according to a Base Rate or a Eurocurrency rate, plus an applicable margin. Subject to obtaining commitments from the lenders and satisfying other conditions specified in the Second Amended and Restated Credit Agreement, the Company may increase the aggregate availability by an additional $270 million. The Second Amended and Restated Credit Agreement contains customary representations, warranties, and covenants for a transaction of this type. The Company was in compliance with those covenants at January 29, 2021.

The 2020 Credit Agreement and the Second Amended and Restated Credit Agreement (collectively, Credit Agreements) support the Company's commercial paper program. The amounts available to be drawn under the Credit Agreements are reduced by the amount of borrowings under the commercial paper program. There were no outstanding borrowings under the Company's commercial paper program, the Second Amended and Restated Credit Agreement, or the 2020 Credit Agreement as of January 29, 2021. Outstanding borrowings under the Company's commercial paper program were $941 million, with a weighted average interest rate of 2.10%, as of January 31, 2020. There were no outstanding borrowings under the Second Amended and Restated Credit Agreement or the 2019 Credit Agreement as of January 31, 2020. Total combined availability under the 2020 Credit Agreement and Second Amended and Restated Credit Agreement was $3.0 billion as of January 29, 2021.

Other Short-Term Borrowings

In January 2020, the Company entered into a $1.0 billion unsecured 364-day term loan facility (the Term Loan), which was scheduled to mature in December 2020, but was repaid early in September 2020. Outstanding borrowings under the Term Loan were $1.0 billion, with a weighted average interest rate of 2.29%, as of January 31, 2020. The weighted average interest rate of total short-term borrowings was 2.14% as of January 31, 2020.

NOTE 8: Long-Term Debt

Debt Category (In millions)	**Weighted-Average Interest Rate at January 29, 2021**	**January 29, 2021**	**January 31, 2020**
Secured debt:			
Mortgage notes due through fiscal 2027 [1]	5.03 %	$ 5	$ 5
Unsecured debt:			
Notes due through fiscal 2025	3.59 %	4,225	3,976
Notes due fiscal 2026-2030	3.19 %	8,478	5,004
Notes due fiscal 2031-2035	5.50 %	341	340
Notes due fiscal 2036-2040	5.74 %	1,052	785
Notes due fiscal 2041-2045	4.61 %	1,461	2,256
Notes due fiscal 2046-2050	3.78 %	5,564	4,287
Finance or capitalized lease obligations due through fiscal 2037		654	712
Total long-term debt		**21,780**	**17,365**
Less current maturities		(1,112)	(597)
Long-term debt, excluding current maturities		**$ 20,668**	**$ 16,768**

1 *Real properties with an aggregate book value of $16 million as of January 29, 2021, were pledged as collateral for secured debt.*

Debt maturities, exclusive of unamortized original issue discounts, unamortized debt issuance costs, and finance lease obligations, for the next five fiscal years and thereafter are as follows: 2021, $1.0 billion; 2022, $765 million; 2023, $503 million; 2024, $450 million; 2025, $1.5 billion; thereafter, $17.1 billion.

The Company's unsecured notes are issued under indentures that generally have similar terms and, therefore, have been grouped by maturity date for presentation purposes in the table above. The notes contain certain restrictive covenants, none of which are expected to impact the Company's capital resources or liquidity. The Company was in compliance with all covenants of these agreements at January 29, 2021.

During 2020, the Company issued $8.0 billion of unsecured fixed rate notes as follows:

Issue Date	Principal Amount (in millions)		Maturity Date	Interest Rate	Discount (in millions)	
March 2020	$	750	April 2025	4.000%	$	4
March 2020	$	1,250	April 2030	4.500%	$	12
March 2020	$	750	April 2040	5.000%	$	10
March 2020	$	1,250	April 2050	5.125%	$	13
October 2020	$	1,000	April 2028	1.300%	$	5
October 2020	$	1,250	October 2030	1.700%	$	10
October 2020	$	1,750	October 2050	3.000%	$	17

Interest on the March 2020 Notes and October 2020 Notes (collectively, the 2020 Notes) is payable semiannually in arrears in April and October of each year until maturity.

During 2019, the Company issued $3.0 billion of unsecured fixed rate notes as follows:

Issue Date	Principal Amount (in millions)		Maturity Date	Interest Rate	Discount (in millions)	
April 2019	$	1,500	April 2029	3.650%	$	9
April 2019	$	1,500	April 2049	4.550%	$	19

Interest on the notes issued in 2019 (the 2019 Notes) is payable semiannually in arrears in April and October of each year until maturity.

The indentures governing the 2020 and 2019 Notes contain a provision that allows the Company to redeem these notes at any time, in whole or in part, at specified redemption prices, plus accrued interest, if any, up to the date of redemption. The indentures also contain a provision that allows the holders of the notes to require the Company to repurchase all or any part of their notes if a change of control triggering event occurs. If elected under the change of control provisions, the repurchase of the notes will occur at a purchase price of 101% of the principal amount, plus accrued interest, if any, on such notes up to the date of purchase. The indentures governing the notes do not limit the aggregate principal amount of debt securities that the Company may issue and do not require the Company to maintain specified financial ratios or levels of net worth or liquidity. However, the indentures include various restrictive covenants, none of which is expected to impact the Company's liquidity or capital resources.

The discounts associated with these issuances, which include the underwriting and issuance discounts, are recorded in long-term debt and are being amortized over the respective terms of the notes using the effective interest method.

During 2020, the Company completed cash tender offers to purchase and retire $3.0 billion combined aggregate principal amount of its outstanding notes with a weighted average interest rate of 4.80%. As a result of the 2020 cash tender offers, the Company recognized a loss on extinguishment of debt of $1.1 billion which includes premium paid to holders of the debt, unamortized deferred financing fees and original issue discounts, and loss on reverse treasury lock derivative contracts. See Note 9 for additional information regarding the reverse treasury lock derivative contracts.

NOTE 9: Derivative Instruments

Cash Flow Hedges

The Company held forward interest rate swap agreements with notional amounts totaling $638 million at January 29, 2021, and $770 million at January 31, 2020. See Note 3 for the gross fair values of the Company's outstanding derivative financial instruments and corresponding fair value classifications.

The impact of forward interest rate swap derivatives, both matured and outstanding, designated as cash flow hedges recorded in other comprehensive income and earnings for 2020, 2019, and 2018, including its line item in the financial statements, is as follows:

	Years Ended		
(In millions)	January 29, 2021	January 31, 2020	February 1, 2019
Other comprehensive income			
Cash flow hedges – net of tax (expense)/benefit of $21 million, $8 million, and $0 million, respectively	(76)	(23)	(1)
Net earnings			
Interest – net	10	2	—

Other Derivatives Not Designated as Hedging Instruments

To hedge the economic risk of changes in value of the 2020 cash tender offers prior to the pricing date, the Company entered into reverse treasury lock derivative contracts with a combined notional amount of $2.0 billion. Upon the pricing of the 2020 cash tender offers, the Company settled the reverse treasury lock derivative contracts and made a payment to its counterparty for $26 million, which is included in loss on extinguishment of debt in the consolidated statements of earnings for the year ended January 29, 2021. The cash flows related to these contracts are included within financing activities in the accompanying consolidated statements of cash flows.

NOTE 10: Shareholders' Equity

Authorized shares of preferred stock were 5.0 million ($5 par value) at January 29, 2021 and January 31, 2020, none of which have been issued. The Board of Directors may issue the preferred stock (without action by shareholders) in one or more series, having such voting rights, dividend and liquidation preferences, and such conversion and other rights as may be designated by the Board of Directors at the time of issuance.

Authorized shares of common stock were 5.6 billion ($0.50 par value) at January 29, 2021 and January 31, 2020.

The Company has a share repurchase program that is executed through purchases made from time to time either in the open market or through private off-market transactions. Shares purchased under the repurchase program are retired and returned to authorized and unissued status. On December 9, 2020, the Company announced that its Board of Directors authorized a $15.0 billion share repurchase under the program, in addition to the $10.0 billion of share repurchases authorized by the Board of Directors in December 2018, with no expiration. As of January 29, 2021, the Company had $19.7 billion remaining under the program.

During the year ended January 29, 2021, the Company entered into Accelerated Share Repurchase (ASR) agreements with third-party financial institutions to repurchase a total of 24.2 million shares of the Company's common stock for $3.5 billion. At inception, the Company paid the financial institutions using cash on hand and took initial delivery of shares. Under the terms of the ASR agreements, upon settlement, the Company would either receive additional shares from the financial institution or be required to deliver additional shares or cash to the financial institution. The Company controlled its election to either deliver additional shares or cash to the financial institution and was subject to provisions which limited the number of shares the Company would be required to deliver.

The final number of shares received upon settlement of each ASR agreement was determined with reference to the volume-weighted average price of the Company's common stock over the term of the ASR agreement. The initial repurchase of shares under these agreements resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings per share.

These ASR agreements were accounted for as treasury stock transactions and forward stock purchase contracts. The par value of the shares received was recorded as a reduction to common stock with the remainder recorded as a reduction to capital in excess of par value and retained earnings. The forward stock purchase contracts were considered indexed to the Company's own stock and were classified as equity instruments.

Table of Contents

The terms of each ASR agreement entered into during the last three fiscal years, structured as outlined above, follow (in millions):

Agreement Execution Date	ASR Settlement Date	ASR Agreement Amount	Minimum Notional Amount[1]	Maximum Notional Amount[1]	Cash Payment Received at Settlement[1]	Initial Shares Delivered
Q2 2018	Q2 2018	$ 550	$ —	$ —	$ —	4.8
Q3 2018	Q3 2018	310	—	—	—	2.5
Q4 2018	Q1 2019	270	—	—	—	2.6
Q1 2019	Q1 2019	350	350	500	150	2.9
Q2 2019	Q2 2019	990	990	1,410	420	8.9
Q3 2019	Q3 2019	397	350	500	103	2.8
Q1 2020	Q1 2020	500	—	—	—	3.9
Q4 2020	Q4 2020	3,000	—	—	—	17.1

[1] *The Company entered into variable notional ASR agreements with third-party financial institutions to repurchase between a minimum notional amount and a maximum notional amount. At inception of each transaction, the Company paid the maximum notional amount and received shares. When the Company finalized each transaction, it received additional shares as well as a cash payment from the third-party financial institution equal to the difference between the prepayment amount (maximum notional amount) and the final notional amount.*

During the year ended January 29, 2021, the Company also repurchased shares of its common stock through the open market totaling 10.0 million shares for a cost of $1.4 billion.

The Company also withholds shares from employees to satisfy either the exercise price of stock options exercised or the statutory withholding tax liability resulting from the vesting of restricted stock awards and performance share units.

Shares repurchased for 2020, 2019, and 2018 were as follows:

	Years Ended					
	January 29, 2021		January 31, 2020		February 1, 2019	
(In millions)	Shares	Cost [1]	Shares	Cost [1]	Shares	Cost [1]
Share repurchase program	34.2	$ 4,940	41.0	$ 4,288	31.2	$ 2,999
Shares withheld from employees	0.1	11	0.3	37	0.5	46
Total share repurchases	**34.3**	**$ 4,951**	**41.3**	**$ 4,325**	**31.7**	**$ 3,045**

[1] *Reductions of $4.7 billion, $4.1 billion, and $2.8 billion were recorded to retained earnings, after capital in excess of par value was depleted, for 2020, 2019, and 2018, respectively.*

NOTE 11: Accounting for Share-Based Payments

Overview of Share-Based Payment Plans

The Company has a number of active and inactive equity incentive plans (the Incentive Plans) under which the Company has been authorized to grant share-based awards to key employees and non-employee directors. The Company also has an employee stock purchase plan (the ESPP) that allows employees to purchase Company shares at a discount through payroll deductions. All of these plans contain a non-discretionary anti-dilution provision that is designed to equalize the value of an award as a result of any stock dividend, stock split, recapitalization, or any other similar equity restructuring.

A total of 199.0 million shares have been previously authorized for grant to key employees and non-employee directors under all of the Company's Incentive Plans, but only 80.0 million of those shares were authorized for grants of share-based awards under the Company's currently active Incentive Plans. At January 29, 2021, there were 27.7 million shares remaining available for grants under the currently active Incentive Plans

On May 29, 2020, shareholders approved the Lowe's Companies, Inc. 2020 Employee Stock Purchase Plan (the 2020 ESPP), which permits a maximum number of shares offered under the new plan of 20.0 million shares. The first offering date under the 2020 ESPP began December 1, 2020, following the expiration of the Lowe's Companies Employee Stock Purchase Plan – Stock Options for Everyone (the Former ESPP), under which 50.5 million of the 70.0 million authorized shares were issued from its adoption to expiration on the last exercise date on November 30, 2020. The first offering period under the 2020 ESPP ends May 31, 2021 with the automatic exercise of options to occur the same day, thus no shares have been issued thereunder at the time of filing this Annual Report, and 20.0 million shares remaining available for purchases.

The Company recognized share-based payment expense within SG&A expense in the consolidated statements of earnings of $155 million, $98 million, and $74 million in 2020, 2019, and 2018 respectively. The total associated income tax benefit recognized, exclusive of excess tax benefits, was $29 million, $15 million, and $15 million in 2020, 2019, and 2018, respectively.

Total unrecognized share-based payment expense for all share-based payment plans was $290 million at January 29, 2021, of which $159 million will be recognized in 2021, $113 million in 2022, and $19 million thereafter. This results in these amounts being recognized over a weighted-average period of 1.6 years.

For all share-based payment awards, the expense recognized has been adjusted for estimated forfeitures where the requisite service is not expected to be met. Estimated forfeiture rates are developed based on the Company's analysis of historical forfeiture data for homogeneous employee groups.

General terms and methods of valuation for the Company's share-based awards are as follows:

Stock Options

Stock options have terms of 10 years, with one-third of each grant vesting each year for three years, subsequent to the date of the grant, and are assigned an exercise price equal to the closing market price of a share of the Company's common stock on the date of grant. Options are expensed on a straight-line basis over the grant vesting period, which is considered to be the requisite service period.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. When determining expected volatility, the Company considers the historical volatility of the Company's stock price, as well as implied volatility. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant, based on the options' expected term. The expected term of the options is based on the Company's evaluation of option holders' exercise patterns and represents the period of time that options are expected to remain unexercised. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted average assumptions used in the Black-Scholes option-pricing model and weighted-average grant date fair value for options granted in 2020, 2019, and 2018 are as follows:

	Years Ended		
	January 29, 2021	**January 31, 2020**	**February 1, 2019**
Weighted-average assumptions used:			
Expected volatility	28.8 %	23.0 %	23.3 %
Dividend yield	1.78 %	1.73 %	1.71 %
Risk-free interest rate	0.47 %	2.28 %	2.71 %
Expected term, in years	6.50	6.38	6.58
Weighted-average grant date fair value	$ 18.82	$ 23.66	$ 21.12

The total intrinsic value of options exercised, representing the difference between the exercise price and the market price on the date of exercise, was approximately $60 million, $44 million, and $36 million in 2020, 2019, and 2018, respectively.

Transactions related to stock options for the fiscal year ended January 29, 2021 are summarized as follows:

	Shares (In thousands)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 31, 2020	2,343	$ 86.01		
Granted	842	82.29		
Canceled, forfeited or expired	(139)	93.68		
Exercised	(911)	73.20		
Outstanding at January 29, 2021	2,135	$ 89.51	7.87	$ 165,091
Vested and expected to vest at January 29, 2021[1]	2,037	$ 89.60	7.81	$ 157,355
Exercisable at January 29, 2021	819	$ 86.80	6.56	$ 65,558

[1] *Includes outstanding vested options as well as outstanding nonvested options after a forfeiture rate is applied.*

Restricted Stock Awards

Restricted stock awards are valued at the market price of a share of the Company's common stock on the date of grant. In general, these awards vest at the end of a three-year period from the date of grant. Beginning in fiscal 2019, certain awards vest 50% at the end of a two-year period from the date of grant and 50% at the end of a three-year period from the date of grant. All awards are expensed on a straight-line basis over a three-year period, which is considered to be the requisite service period. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted-average grant-date fair value per share of restricted stock awards granted was $83.83, $109.04, and $86.99 in 2020, 2019, and 2018, respectively. The total fair value of restricted stock awards vesting each year was approximately $31 million, $64 million, and $85 million in 2020, 2019, and 2018, respectively.

Transactions related to restricted stock awards for the fiscal year ended January 29, 2021 are summarized as follows:

	Shares (In thousands)	Weighted-Average Grant-Date Fair Value Per Share
Nonvested at January 31, 2020	1,997	$ 97.81
Granted	1,599	83.83
Vested	(307)	83.76
Canceled or forfeited	(317)	93.38
Nonvested at January 29, 2021	2,972	$ 92.30

Deferred Stock Units

Deferred stock units are valued at the market price of a share of the Company's common stock on the date of grant. For non-employee Directors, these awards vest immediately and are expensed on the grant date. During 2020, 2019, and 2018, each non-employee Director was awarded a number of deferred stock units determined by dividing the annual award amount by the fair market value of a share of the Company's common stock on the award date and rounding up to the next 100 units. The annual award amount used to determine the number of deferred stock units granted to each Director was $175,000 for 2020, 2019, and 2018. During 2018, the Company appointed a new Chairman of the Board who received an additional grant of deferred stock units. The award amount used to determine the additional units granted was $140,000. During 2020, 15,100 deferred stock units were granted and immediately vested for non-employee Directors. The weighted-average grant-date fair value per share of deferred stock units granted was $130.35, $93.28, and $95.83 in 2020, 2019, and 2018, respectively. The total fair value of deferred stock units vested was $2 million, $2 million, and $2 million in 2020, 2019, and 2018, respectively. At January 29, 2021, there were 142 thousand deferred stock units outstanding, all of which are vested.

Performance Share Units

The Company issues performance share units classified as equity awards. Expense is recognized on a straight-line basis over the requisite service period, based on the probability of achieving the performance condition, with changes in expectations recognized as an adjustment to earnings in the period of the change. Compensation cost is not recognized for performance share units that do not vest because service or performance conditions are not satisfied, and any previously recognized compensation cost is reversed. Performance share units do not have dividend rights. The Company uses historical data to estimate the timing and amount of forfeitures.

The Company’s performance share units are classified as equity and contain performance and service conditions that must be satisfied for an employee to earn the right to benefit from the award. For awards issued in fiscal 2019 and after, the performance condition is primarily based on the achievement of the Company’s target return on invested capital (ROIC). For awards issued prior to fiscal 2019, the performance condition is primarily based on the achievement of the Company’s target return on non-cash average assets (RONCAA).

The performance share units contain a market condition modifier, in addition to having a performance and service condition. The performance condition for these awards continues to be based primarily on the achievement of the Company’s ROIC or RONCAA targets. The market condition is based on the Company’s total shareholder return (TSR) compared to the median TSR of companies listed in the S&P 500 Index over a three year performance period. The Company uses a Monte-Carlo simulation to determine the grant date fair value for these awards, which takes into consideration the market price of a share of the Company’s common stock on the date of grant less the present value of dividends expected during the requisite service period, as well as the possible outcomes pertaining to the TSR market condition.

The weighted-average assumptions used in the Monte Carlo simulations for these awards granted in 2020 and 2019 are as follows:

	Years Ended	
	January 29, 2021	**January 31, 2020**
Weighted-average assumptions used:		
Expected volatility	38.5 %	24.1 %
Dividend yield	1.89 %	1.89 %
Risk-free interest rate	0.13 %	2.28 %
Expected term, in years	2.42	2.84

In general, 0% to 200% of the Company’s performance share units vest at the end of a three year service period from the date of grant based upon achievement of the performance condition, or a combination of the performance and market conditions, specified in the performance share unit agreement.

The weighted-average grant-date fair value per unit of performance share units classified as equity awards granted was $203.85, $115.93, and $82.22 in 2020, 2019, and 2018, respectively. The total fair value of performance share units vesting was approximately $0 million, $19 million, and $13 million in 2020, 2019, and 2018, respectively.

Transactions related to performance share units classified as equity awards for the fiscal year ended January 29, 2021 are summarized as follows:

	Units (In thousands)[1]	Weighted-Average Grant-Date Fair Value Per Unit
Nonvested at January 31, 2020	569	$ 97.86
Granted	348	203.85
Vested	—	—
Canceled or forfeited	(214)	100.17
Nonvested at January 29, 2021	703	$ 149.61

1 *The number of units presented is based on achieving the targeted performance goals as defined in the performance share unit agreements. As of January 29, 2021, the maximum number of nonvested units that could vest under the provisions of the agreements was 0.4 million for the RONCAA awards and 1.1 million for the ROIC awards.*

Restricted Stock Units

Restricted stock units do not have dividend rights and are valued at the market price of a share of the Company's common stock on the date of grant less the present value of dividends expected during the requisite service period. In general, these awards vest at the end of a three-year period from the date of grant. Beginning in fiscal 2019, certain awards vest 50% at the end of a two-year period from the date of grant and 50% at the end of a three-year period from the date of grant. All awards are expensed on a straight-line basis over that period, which is considered to be the requisite service period. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted-average grant-date fair value per share of restricted stock units granted was $75.59, $103.40, and $80.32 in 2020, 2019, and 2018, respectively. The total fair value of restricted stock units vesting was approximately $5 million, $9 million, and $7 million in 2020, 2019, and 2018, respectively.

Transactions related to restricted stock units for the fiscal year ended January 29, 2021 are summarized as follows:

	Shares (In thousands)	Weighted-Average Grant-Date Fair Value Per Share
Nonvested at January 31, 2020	506	$ 96.39
Granted	662	75.59
Vested	(41)	75.16
Canceled or forfeited	(135)	83.92
Nonvested at January 29, 2021	992	$ 84.84

ESPP

On May 29, 2020, shareholders approved the 2020 ESPP. The first offering date under the 2020 ESPP began December 1, 2020, following the expiration of the Former ESPP. The purchase price of the shares under both the 2020 ESPP and the Former ESPP equals 85% of the closing price on the date of purchase. The Company's share-based payment expense per share is equal to 15% of the closing price on the date of purchase. The ESPP is considered a liability award and is measured at fair value at each reporting date, and the share-based payment expense is recognized over the six-month offering period. Under the Former ESPP, the Company issued 0.7 million shares of common stock in 2020, 0.8 million shares of common stock in 2019, and 0.9 million shares of common stock in 2018 and recognized $16 million of share-based payment expense pursuant to the Former ESPP in 2020 and $13 million of share-based payment expense pursuant to the Former ESPP in 2019 and 2018. The first offering period under the 2020 ESPP ends May 31, 2021 with the automatic exercise of options to occur the same day; no shares have been issued thereunder at the time of filing this Annual Report.

NOTE 12: Employee Retirement Plans

The Company maintains a defined contribution retirement plan for eligible employees (the 401(k) Plan). Eligible employees may participate in the 401(k) Plan the first of the month after thirty days of employment. The Company makes contributions to the 401(k) Plan each payroll period, based upon a matching formula applied to employee deferrals (the Company

Match). Participants are eligible to receive the Company Match pursuant to the terms of the 401(k) Plan. The Company Match varies based on how much the employee elects to defer up to a maximum of 4.25% of eligible compensation. The Company Match is invested identically to employee contributions and is immediately vested.

The Company maintains a Benefit Restoration Plan to supplement benefits provided under the 401(k) Plan to participants whose benefits are restricted as a result of certain provisions of the Internal Revenue Code of 1986. This plan provides for employee salary deferrals and employer contributions in the form of a Company Match.

The Company maintains a non-qualified deferred compensation program called the Lowe's Cash Deferral Plan. This plan is designed to permit certain employees to defer receipt of portions of their compensation, thereby delaying taxation on the deferral amount and on subsequent earnings until the balance is distributed. This plan does not provide for Company contributions.

The Company recognized expense associated with these employee retirement plans of $175 million, $175 million, and $164 million in 2020, 2019, and 2018, respectively.

NOTE 13: Income Taxes

The following is a reconciliation of the federal statutory tax rate to the effective tax rate:

	Years Ended		
	January 29, 2021	**January 31, 2020**	**February 1, 2019**
Statutory federal income tax rate	21.0 %	21.0 %	21.0 %
State income taxes, net of federal tax benefit	4.0	4.1	4.8
Valuation allowance	—	1.3	—
Goodwill impairment	—	—	5.5
Mexico impairment	—	(1.4)	1.5
Other, net	(0.4)	(1.1)	(1.0)
Effective tax rate	**24.6 %**	**23.9 %**	**31.8 %**

The components of the income tax provision are as follows:

	Years Ended		
(In millions)	**January 29, 2021**	**January 31, 2020**	**February 1, 2019**
Current:			
Federal	$ 1,578	$ 935	$ 963
State	425	268	274
Total current [1]	**2,003**	**1,203**	**1,237**
Deferred:			
Federal	(73)	121	(102)
State	(26)	18	(55)
Total deferred [1]	**(99)**	**139**	**(157)**
Total income tax provision	**$ 1,904**	**$ 1,342**	**$ 1,080**

[1] *Amounts applicable to foreign income taxes were insignificant for all periods presented.*

The tax effects of cumulative temporary differences that gave rise to the deferred tax assets and liabilities were as follows:

(In millions)	January 29, 2021	January 31, 2020
Deferred tax assets:		
Self-insurance	$ 284	$ 260
Share-based payment expense	48	30
Operating lease liabilities	1,328	1,377
Capital loss carryforwards	225	225
Net operating losses	274	273
Other, net	337	131
Total deferred tax assets	**2,496**	**2,296**
Valuation allowance	(601)	(561)
Net deferred tax assets	**1,895**	**1,735**
Deferred tax liabilities:		
Operating lease assets	(1,146)	(1,198)
Property	(382)	(293)
Other, net	(27)	(28)
Total deferred tax liabilities	**(1,555)**	**(1,519)**
Net deferred tax asset	**$ 340**	**$ 216**

As of January 29, 2021, the Company reported a deferred tax asset of $225 million, for the capital loss realized in 2017 for U.S. federal income tax purposes related to the exit from the Company's joint venture investment in Australia. Since no present or future capital gains have been identified through which the asset can be realized, the Company has a full valuation allowance against the deferred tax asset. For U.S. federal tax purposes, this loss has a five-year carryforward period expiring at the end of fiscal 2022.

The Company operates Lowe's Companies Canada, ULC as a branch and has cumulatively incurred Canadian net operating losses of $769 million and $738 million as of January 29, 2021 and January 31, 2020, respectively. The Company operates RONA inc. as a foreign corporation and has cumulatively incurred Canadian net operating losses of $261 million and $292 million as of January 29, 2021 and January 31, 2020, respectively. These net operating losses are subject to expiration in 2024 through 2040. Deferred tax assets have been established for these foreign net operating losses in the accompanying consolidated balance sheets. Given the uncertainty regarding the realization of the foreign net deferred tax assets, the Company recorded cumulative valuation allowances of $357 million and $319 million as of January 29, 2021 and January 31, 2020, respectively. These valuation allowances are based on management's assessment of the available positive and negative evidence to estimate the realization of this entity's existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year periods ended January 29, 2021 and January 31, 2020, respectively. The amount of the deferred tax asset considered realizable, however, could be adjusted if objective negative evidence in the form of cumulative losses is no longer present and if estimates of future taxable income are increased.

A reconciliation of the beginning and ending balances of unrecognized tax benefits is as follows:

	Years Ended		
(In millions)	**January 29, 2021**	**January 31, 2020**	**February 1, 2019**
Unrecognized tax benefits, beginning of year	$ 4	$ 10	$ —
Additions for tax positions of prior years	—	2	10
Reductions for tax positions of prior years	—	(3)	—
Settlements	(2)	(5)	—
Unrecognized tax benefits, end of year	**$ 2**	**$ 4**	**$ 10**

The amounts of unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate were $2 million as of January 29, 2021 and $3 million as of January 31, 2020.

The interest income and interest expense recognized by the Company related to uncertain tax positions was insignificant for 2020, 2019, and 2018.

Penalties recognized related to uncertain tax positions were insignificant for 2020, 2019, and 2018. There were no accrued penalties as of January 29, 2021, and penalties were insignificant as of January 31, 2020.

The Company is subject to examination by various foreign and domestic taxing authorities. There are ongoing U.S. state audits covering tax years 2015 to 2019. An audit of the Company's Canadian operations by the Canada Revenue Agency for fiscal years 2015 and 2016 is on-going. The Company remains subject to income tax examinations for fiscal years 2015 through 2019. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years.

Note 14: Earnings Per Share

The Company calculates basic and diluted earnings per common share using the two-class method. Under the two-class method, net earnings are allocated to each class of common stock and participating security as if all of the net earnings for the period had been distributed. The Company's participating securities consist of share-based payment awards that contain a nonforfeitable right to receive dividends and, therefore, are considered to participate in undistributed earnings with common shareholders.

Basic earnings per common share excludes dilution and is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares as of the balance sheet date, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings per common share for 2020, 2019, and 2018:

	Years Ended		
(In millions, except per share data)	**January 29, 2021**	**January 31, 2020**	**February 1, 2019**
Basic earnings per common share:			
Net earnings attributable to Lowe's Companies, Inc.	$ 5,835	$ 4,281	$ 2,314
Less: Net earnings allocable to participating securities	(24)	(13)	(7)
Net earnings allocable to common shares, basic	**$ 5,811**	**$ 4,268**	**$ 2,307**
Weighted-average common shares outstanding	**748**	**777**	**811**
Basic earnings per common share	**$ 7.77**	**$ 5.49**	**$ 2.84**
Diluted earnings per common share:			
Net earnings attributable to Lowe's Companies, Inc.	$ 5,835	$ 4,281	$ 2,314
Less: Net earnings allocable to participating securities	(24)	(13)	(7)
Net earnings allocable to common shares, diluted	**$ 5,811**	**$ 4,268**	**$ 2,307**
Weighted-average common shares outstanding	748	777	811
Dilutive effect of non-participating share-based awards	2	1	1
Weighted-average common shares, as adjusted	**750**	**778**	**812**
Diluted earnings per common share	**$ 7.75**	**$ 5.49**	**$ 2.84**

Anti-dilutive securities excluded from diluted weighted-average common shares outstanding totaled 0.3 million, 0.9 million, and 0.5 million shares for 2020, 2019, and 2018, respectively.

NOTE 15: Commitments and Contingencies

The Company is, from time to time, party to various legal proceedings considered to be in the normal course of business, none of which, individually or in the aggregate, are expected to be material to the Company's financial statements. In evaluating liabilities associated with its various legal proceedings, the Company has accrued for probable liabilities associated with these matters. The amounts accrued were not material to the Company's consolidated financial statements in any of the years presented. Reasonably possible losses for any of the individual legal proceedings which have not been accrued were not material to the Company's consolidated financial statements.

As of January 29, 2021, the Company had non-cancellable commitments of $1.1 billion related to certain marketing and information technology programs, and purchases of merchandise inventory. Payments under these commitments are scheduled to be made as follows: 2021, $654 million; 2022, $258 million; 2023, $106 million; 2024, $50 million; thereafter, $50 million.

At January 29, 2021, the Company held standby and documentary letters of credit issued under banking arrangements which totaled $61 million. The majority of the Company's letters of credit were issued for insurance and construction contracts.

NOTE 16: Related Parties

A member of the Company's Board of Directors also serves on the Board of Directors of a vendor that provides branded consumer packaged goods to the Company. The Company purchased products from this vendor in the amount of $214 million in 2020, $165 million in 2019, and $156 million in 2018. Amounts payable to this vendor were insignificant at January 29, 2021 and January 31, 2020.

The Company's President and Chief Executive Officer also serves on the Board of Directors of a vendor that provides transportation and business services to the Company. The Company purchased services from this vendor in the amount of $138 million in 2020, $117 million in 2019, and $91 million in 2018. Amounts payable to this vendor were insignificant at January 29, 2021 and January 31, 2020.

NOTE 17: Other Information

Net interest expense is comprised of the following:

	Years Ended		
(In millions)	**January 29, 2021**	**January 31, 2020**	**February 1, 2019**
Long-term debt	$ 807	$ 668	$ 582
Lease obligations	32	30	58
Short-term borrowings	13	—	—
Interest income	(24)	(27)	(28)
Interest capitalized	—	(1)	(3)
Interest on tax uncertainties	—	—	3
Other	20	21	12
Interest – net	**$ 848**	**$ 691**	**$ 624**

Supplemental disclosures of cash flow information:

	Years Ended		
(In millions)	**January 29, 2021**	**January 31, 2020**	**February 1, 2019**
Cash paid for interest, net of amount capitalized	$ 824	$ 671	$ 635
Cash paid for income taxes, net	$ 1,588	$ 1,423	$ 1,316
Non-cash investing and financing activities: [1]			
Cash dividends declared but not paid	$ 440	$ 420	$ 385

[1] *See* *Note 5* *for supplemental cash flow disclosures related to finance and operating leases.*

Sales by product category:

	Years Ended					
	January 29, 2021		January 31, 2020		February 1, 2019	
(Dollars in millions)	Total Sales	%	Total Sales	%	Total Sales	%
Appliances	$ 12,098	14 %	$ 9,989	14 %	$ 9,484	13 %
Seasonal & Outdoor Living	8,856	10	6,814	9	6,592	9
Lawn & Garden	8,854	10	6,481	9	6,166	9
Lumber	8,337	9	5,709	8	5,863	8
Kitchens & Bath	6,158	7	5,434	8	5,584	8
Tools	5,394	6	4,246	6	4,062	6
Paint	5,371	6	4,074	6	4,040	6
Millwork	4,962	6	4,197	6	4,056	6
Hardware	4,698	5	3,841	5	3,724	5
Flooring	4,457	5	3,894	5	3,905	5
Rough Plumbing	4,306	5	3,742	5	3,676	5
Building Materials	4,119	5	3,452	5	3,731	5
Décor	3,493	4	2,846	4	2,326	3
Lighting	3,482	4	2,888	4	3,022	4
Electrical	2,969	3	2,447	3	2,278	3
Other	2,043	1	2,094	3	2,800	5
Net sales	**$ 89,597**	**100 %**	**$ 72,148**	**100 %**	**$ 71,309**	**100 %**

Note: Product category sales for prior periods have been reclassified to conform to the current year presentation.

SUPPLEMENTARY DATA

Selected Quarterly Data (UNAUDITED)

The following table summarizes the quarterly consolidated results of operations for 2020 and 2019:

	Year Ended January 29, 2021			
(In millions, except per share data)	First	Second	Third	Fourth
Net sales	$ 19,675	$ 27,302	$ 22,309	$ 20,311
Gross margin	6,513	9,304	7,300	6,456
Net earnings	1,337	2,828	692	978
Basic earnings per common share	1.76	3.74	0.92	1.33
Diluted earnings per common share	$ 1.76	$ 3.74	$ 0.91	$ 1.32

	Year Ended January 31, 2020			
(In millions, except per share data)	First	Second	Third	Fourth
Net sales	$ 17,741	$ 20,992	$ 17,388	$ 16,027
Gross margin	5,581	6,740	5,640	4,981
Net earnings	1,046	1,676	1,049	509
Basic earnings per common share	1.31	2.14	1.36	0.67
Diluted earnings per common share	$ 1.31	$ 2.14	$ 1.36	$ 0.66

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A - Controls and Procedures

The Company’s management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s “disclosure controls and procedures”, (as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act)). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Annual Report, the Company’s disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and (2) is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management’s report on internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) and the report of Deloitte & Touche LLP, the Company’s independent registered public accounting firm, are included in Item 8 of this Annual Report.

In addition, no change in the Company’s internal control over financial reporting occurred during the fiscal fourth quarter ended January 29, 2021, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting. Although most of our corporate employees are working remotely due to the COVID-19 global health crisis, we have not experienced a material impact to our internal control over financial reporting. We continue to monitor the pandemic and its effects on the design and operating effectiveness of our internal controls.

Item 9B - Other Information

None.

Part III

Item 10 - Directors, Executive Officers and Corporate Governance

The information required by this item with respect to our executive officers appears in Part I of this Annual Report under the heading, “Information About Our Executive Officers”. The other information required by this item is furnished by incorporation by reference to the information under the headings “Proposal 1: Election of Directors”, “Corporate Governance”, and “Additional Information - Shareholder Proposals for the 2022 Annual Meeting” in the definitive Proxy Statement for the 2021 annual meeting of shareholders, which will be filed with the SEC within 120 days after the fiscal year ended January 29, 2021 (the Proxy Statement).

We have adopted a written code of business conduct and ethics, which is intended to qualify as a “code of ethics” within the meaning of Item 406 of Regulation S-K of the Exchange Act, which we refer to as the Lowe’s Code of Business Conduct and Ethics (the Code). The Code applies to all employees of the Company, including our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions. The Code is designed to ensure that the Company’s business is conducted in a legal and ethical manner. The Code covers all areas of professional conduct, including compliance with laws and regulations, conflicts of interest, fair dealing among customers and suppliers, corporate opportunity, confidential information, insider trading, employee relations, and accounting complaints. The full text of the Code can be found on our website at www.Lowes.com, under the “About Lowe’s”, “Investors”, and “Corporate Governance - Governance Documents” headings. You can also obtain a copy of the complete Code by contacting Investor Relations at 1-800-813-7613.

We will disclose information pertaining to amendments or waivers to provisions of the Code that apply to our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions and that relate to any element of the Code enumerated in the SEC rules and regulations by posting this information on our website at www.Lowes.com. The information on our website is not a part of this Annual Report and is not incorporated by reference in this report or any of our other filings with the SEC.

Item 11 - Executive Compensation

The information required by this item is furnished by incorporation by reference to the information under the headings “Corporate Governance – Compensation of Directors”, “Compensation Discussion and Analysis”, “Compensation Tables”, and “Compensation Committee Interlocks and Insider Participation” in the Proxy Statement.

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is furnished by incorporation by reference to the information under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the Proxy Statement.

Item 13 - Certain Relationships and Related Transactions, and Director Independence

The information required by this item is furnished by incorporation by reference to the information under the headings “Corporate Governance – Director Independence”, “Related Person Transactions”, and “Appendix A: Categorical Standards for Determination of Director Independence” in the Proxy Statement.

Item 14 - Principal Accountant Fees and Services

The information required by this item is furnished by incorporation by reference to the information under the heading “Audit Matters – Fees Paid to the Independent Registered Public Accounting Firm” in the Proxy Statement.

Part IV

Item 15 – Exhibits and Financial Statement Schedules

a) 1. Financial Statements

See the following items and page numbers appearing in Item 8 of this Annual Report:

	Page No.
Reports of Independent Registered Public Accounting Firm	34
Consolidated Statements of Earnings for each of the three fiscal years in the period ended January 29, 2021	37
Consolidated Statements of Comprehensive Income for each of the three fiscal years in the period ended January 29, 2021	37
Consolidated Balance Sheets at January 29, 2021 and January 31, 2020	38
Consolidated Statements of Shareholders' Equity for each of the three fiscal years in the period ended January 29, 2021	39
Consolidated Statements of Cash Flows for each of the three fiscal years in the period ended January 29, 2021	40
Notes to Consolidated Financial Statements for each of the three fiscal years in the period ended January 29, 2021	41

2. Financial Statement Schedule

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In millions)	Balance at beginning of period	Charges to costs and expenses	Deductions	Balance at end of period
January 29, 2021:				
Reserve for loss on obsolete inventory	$ 105	$ 77 [1]	$ —	$ 182
Reserve for inventory shrinkage	244	907	(786) [2]	365
Reserve for sales returns	194	58	—	252
Deferred tax valuation allowance	561	40	—	601
Self-insurance liabilities	1,104	1,568	(1,579) [5]	1,093
Reserve for exit activities	88	—	(19)	69
January 31, 2020:				
Reserve for loss on obsolete inventory	$ 78	$ 27 [1]	$ —	$ 105
Reserve for inventory shrinkage	222	533	(511) [2]	244
Reserve for sales returns	194	—	—	194
Deferred tax valuation allowance	569	—	(8) [4]	561
Self-insurance liabilities	953	1,711	(1,560) [5]	1,104
Reserve for exit activities	361	—	(273) [7]	88
February 1, 2019:				
Reserve for loss on obsolete inventory	$ 77	$ 1 [1]	$ —	$ 78
Reserve for inventory shrinkage	212	478	(468) [2]	222
Reserve for sales returns	71	123 [3]	—	194
Deferred tax valuation allowance	475	94 [4]	—	569
Self-insurance liabilities	890	1,530	(1,467) [5]	953
Reserve for exit activities	60	384	(83) [6]	361

[1] *Represents the net increase in the required reserve based on the Company's evaluation of obsolete inventory.*

[2] *Represents the actual inventory shrinkage experienced at the time of physical inventories.*

[3] *Represents the net increase in the required reserve based on the Company's evaluation of anticipated merchandise returns. The Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), effective February 3, 2018. Under ASU 2014-09, the sales returns reserve is presented on a gross basis, with a separate asset and liability in the consolidated balance sheet. For fiscal year 2018, the net increase in the reserve is primarily due to the change from net presentation to gross presentation related to the adoption of the revenue recognition standard, as well as changes in the Company's evaluation of anticipated merchandise returns.*

[4] *Represents an increase/(decrease) in the required reserve based on the Company's evaluation of deferred tax assets.*

[5] *Represents claim payments for self-insured claims.*

[6] *Represents lease payments, net of sublease income.*

[7] *Primarily represents the elimination of exit activity reserves related to rent liabilities upon adoption of ASU 2016-02, Leases (Topic 842), as of February 2, 2019.*

Table of Contents

3. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
2.1	Arrangement Agreement, dated as of February 2, 2016, among Lowe's Companies, Inc., Lowe's Companies Canada, ULC and RONA inc.(1)	10-K	001-07898	2.1	March 29, 2016
3.1	Restated Charter of Lowe's Companies, Inc.	10-Q	001-07898	3.1	September 1, 2009
3.2	Bylaws of Lowe's Companies, Inc., as amended and restated May 29, 2020.	8-K	001-07898	3.1	June 2, 2020
4.1	Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee.	8-K	001-07898	4.1	December 15, 1995
4.2	Form of Lowe's Companies, Inc.'s 6 7/8% Debentures due February 15, 2028.	8-K	001-07898	4.2	February 20, 1998
4.3	First Supplemental Indenture, dated as of February 23, 1999, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee.	10-K	001-07898	10.13	April 19, 1999
4.4	Form of Lowe's Companies, Inc.'s 6 1/2% Debentures due March 15, 2029.	10-K	001-07898	10.19	April 19, 1999
4.5	Third Supplemental Indenture, dated as of October 6, 2005, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as an exhibit thereto a form of Lowe's Companies, Inc.'s 5.5% Notes maturing in October 2035.	10-K	001-07898	4.5	April 3, 2007
4.6	Fourth Supplemental Indenture, dated as of October 10, 2006, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as an exhibit thereto a form of Lowe's Companies, Inc.'s 5.80% Notes maturing in October 2036.	S-3 (POSASR)	333-137750	4.5	October 10, 2006

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
4.7	Fifth Supplemental Indenture, dated as of September 11, 2007, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 6.10% Notes maturing in September 2017 and a form of Lowe's Companies, Inc.'s 6.65% Notes maturing in September 2037.	8-K	001-07898	4.1	September 11, 2007
4.8	Sixth Supplemental Indenture, dated as of April 15, 2010, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 4.625% Notes maturing in April 2020 and a form of Lowe's Companies, Inc.'s 5.800% Notes maturing in April 2040.	8-K	001-07898	4.1	April 15, 2010
4.9	Seventh Supplemental Indenture, dated as of November 22, 2010, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as an exhibit thereto a form of Lowe's Companies, Inc.'s 3.750% Notes maturing in April 2021.	8-K	001-07898	4.1	November 22, 2010
4.10	Eighth Supplemental Indenture, dated as of November 23, 2011, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 3.800% Notes maturing in November 2021 and a form of Lowe's Companies, Inc.'s 5.125% Notes maturing in November 2041.	8-K	001-07898	4.1	November 23, 2011
4.11	Ninth Supplemental Indenture, dated as of April 23, 2012, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 1.625% Notes maturing in April	8-K	001-07898	4.1	April 23, 2012

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
4.12	Tenth Supplemental Indenture, dated as of September 11, 2013, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe’s Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe’s Companies, Inc.’s 3.875% Notes maturing in September 2023 and a form of Lowe’s Companies, Inc.’s 5.000% Notes maturing in September 2043.	8-K	001-07898	4.1	September 11, 2013
4.13	Eleventh Supplemental Indenture, dated as of September 10, 2014, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe’s Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe’s Companies, Inc.’s Floating Rate Notes maturing in September 2019, a form of Lowe’s Companies, Inc.’s 3.125% Notes maturing in September 2024 and a form of Lowe’s Companies, Inc.’s 4.250% Notes maturing in September 2044.	8-K	001-07898	4.1	September 10, 2014
4.14	Twelfth Supplemental Indenture, dated as of September 16, 2015, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe’s Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe’s Companies, Inc.’s Floating Rate Notes maturing in September 2018, a form of Lowe’s Companies, Inc.’s 3.375% Notes maturing in September 2025 and a form of Lowe’s Companies, Inc.’s 4.375% Notes maturing in September 2045.	8-K	001-07898	4.1	September 16, 2015
4.15	Thirteenth Supplemental Indenture, dated as of April 20, 2016, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe’s Companies, Inc. and U.S. Bank National Association, as trustee, including as exhibits thereto a form of Lowe’s Companies, Inc.’s Floating Rate Notes maturing in April 2019, a form of Lowe’s Companies, Inc.’s 1.15% Notes maturing in April 2019, a form of Lowe’s Companies, Inc.’s 2.50% Notes	8-K	001-07898	4.1	April 20, 2016

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
4.17	Fifteenth Supplemental Indenture, dated as of April 5, 2019, between Lowe's Companies, Inc. and U.S. Bank National Association (as successor trustee), including as exhibits thereto a form of 3.650% Notes due April 5, 2029 and a form of 4.550% Notes due April 5, 2049.	8-K	001-07898	4.2	April 5, 2019
4.18	Sixteenth Supplemental Indenture, dated as of March 26, 2020, between Lowe's Companies, Inc. and U.S. Bank National Association (as successor trustee), including as exhibits thereto a form of 4.000% Notes due April 15, 2025, a form of 4.500% Notes due April 15, 2030, a form of 5.000% Notes due April 15, 2040 and a form of 5.125% Notes due April 15, 2050.	8-K	001-07898	4.2	March 27, 2020
4.19	Seventeenth Supplemental Indenture, dated as of October 22, 2020, between Lowe's Companies, Inc. and U.S. Bank National Association (as successor trustee), including as exhibits thereto a form of 1.300% Notes due April 15, 2028, a form of 1.700% Notes due October 15, 2030 and a form of 3.000% Notes due October 15, 2050.	8-K	001-07898	4.2	October 22, 2020
4.20	Second Amended and Restated Credit Agreement, dated as of September 10, 2018, by and among Lowe's Companies, Inc., Bank of America, N.A., as administrative agent and a letter of credit issuer, U.S. Bank National Association, as syndication agent and a letter of credit issuer, Citibank, N.A., Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A. and Wells Fargo Bank, National Association, as co-documentation agents, and the other lenders party thereto.	8-K	001-07898	10.1	September 12, 2018
4.21	364-day term loan facility, dated as of January 3, 2020, by and between Lowe's Companies, Inc. and Wells Fargo Bank, National Association.	8-K	001-07898	10.1	January 9, 2020
4.22	Credit Agreement, dated as of March 23, 2020, by and among Lowe's Companies, Inc., Bank of America, N.A., as administrative agent, swing-line lender, and a letter of credit issuer, U.S. Bank National Association, as	8-K	001-07898	10.1	March 24, 2020

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
4.23	Description of Securities. ‡				
10.1	Lowe's Companies, Inc. Directors' Deferred Compensation Plan, effective July 1, 1994.*	10-Q	001-07898	10.1	December 2, 2008
10.2	Amendment No. 1 to the Lowe's Companies, Inc. Directors' Deferred Compensation Plan, effective January 31, 2009.*	10-K	001-07898	10.21	March 30, 2010
10.3	Lowe's Companies Employee Stock Purchase Plan – Stock Options for Everyone, as amended and restated effective June 1, 2012.*	DEF 14A	001-07898	Appendix B	April 13, 2012
10.4	Lowe's Companies, Inc. 2020 Employee Stock Purchase Plan.*	S-8	333-249586	99.1	October 21, 2020
10.5	Lowe's Companies, Inc. 1997 Incentive Plan.*	S-8	333-34631	4.2	August 29, 1997
10.6	Amendments to the Lowe's Companies, Inc. 1997 Incentive Plan, dated January 25, 1998.*	10-K	001-07898	10.16	April 19, 1999
10.7	Amendments to the Lowe's Companies, Inc. 1997 Incentive Plan, dated September 17, 1998 (also encompassing as Exhibit I thereto the Lowe's Companies, Inc. Deferred Compensation Program).*	10-K	001-07898	10.17	April 19, 1999
10.8	Amendment No. 1 to the Lowe's Companies, Inc. Deferred Compensation Program, effective as of January 1, 2005.*	10-K	001-07898	10.25	March 29, 2011
10.9	Amendment No. 2 to the Lowe's Companies, Inc. Deferred Compensation Program, effective as of December 31, 2008.*	10-K	001-07898	10.22	March 31, 2009
10.10	Lowe's Companies Benefit Restoration Plan, as amended and restated as of January 1, 2008.*	10-Q	001-07898	10.2	December 12, 2007
10.11	Amendment No. 1 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.10	March 29, 2011
10.12	Amendment No. 2 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.11	March 29, 2011
10.13	Amendment No. 3 to the Lowe's Companies Benefit Restoration Plan.*	10-Q	001-07898	10.1	December 1, 2011
10.14	Amendment No. 4 to the Lowe's	10-Q	001-07898	10.1	September 4,

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
10.15	Amendment No. 5 to the Lowe's Companies Benefit Restoration Plan.*	10-Q	001-07898	10.1	December 3, 2013
10.16	Amendment No. 6 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.1	March 31, 2015
10.17	Amendment No. 7 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.16	April 4, 2017
10.18	Lowe's Companies Cash Deferral Plan.*	10-Q	001-07898	10.1	June 4, 2004
10.19	Amendment No. 1 to the Lowe's Companies Cash Deferral Plan.*	10-Q	001-07898	10.1	December 12, 2007
10.20	Amendment No. 2 to the Lowe's Companies Cash Deferral Plan.*	10-Q	001-07898	10.2	December 1, 2010
10.21	Lowe's Companies, Inc. Amended and Restated Directors' Stock Option and Deferred Stock Unit Plan.*	8-K	001-07898	10.1	June 3, 2005
10.22	Form of Lowe's Companies, Inc. Deferred Stock Unit Agreement for Outside Directors.*	10-Q	001-07898	10.1	September 3, 2019
10.23	Lowe's Companies, Inc. 2006 Long Term Incentive Plan, as amended and restated effective as of January 30, 2020.*	10-K	001-07898	10.22	March 23, 2020
10.24	Lowe's Companies, Inc. 2016 Annual Incentive Plan, effective as of February 1, 2016.*	DEF 14A	001-07898	Appendix C	April 11, 2016
10.25	Offer Letter between Marvin R. Ellison and Lowe's Companies, Inc. entered into on May 21, 2018.*	8-K	001-07898	10.1	May 22, 2018
10.26	Offer Letter between Lowe's Companies, Inc. and Joseph M. McFarland III entered into on July 18, 2018.*	10-Q	001-07898	10.2	September 4, 2018
10.27	Offer Letter between Lowe's Companies, Inc. and David M. Denton entered into on August 20, 2018.*	10-Q	001-07898	10.3	September 4, 2018
10.28	Form of Lowe's Companies, Inc. Restricted Stock Award Agreement for Tier I Officers.*	10-K	001-07898	10.28	March 23, 2020
10.29	Form of Lowe's Companies, Inc. Performance Share Unit Award Agreement for Tier I Officers.*	10-Q	001-07898	10.2	June 3, 2019

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
10.31	Form of Lowe's Companies, Inc. Change in Control Agreement for Tier I Senior Officers.*	10-Q	001-07898	10.7	September 4, 2018
10.32	Form of Lowe's Companies, Inc. Performance Share Unit Award Agreement.*	10-Q	001-07898	10.1	November 25, 2020
10.33	Form of Lowe's Companies, Inc. Non-Qualified Stock Option Agreement.*	10-Q	001-07898	10.2	May 28, 2020
10.34	Lowe's Companies, Inc. Severance Plan for Senior Officers as amended and restated May 29, 2020.*	10-Q	001-07898	10.1	August 26, 2020
10.35	Form of Lowe's Companies, Inc. Director Indemnification Agreement.*	10-Q	001-07898	10.6	December 6, 2018
10.36	Form of Lowe's Companies, Inc. Officer Indemnification Agreement.*	10-K	001-07898	10.43	April 2, 2019
10.37	Release and Separation Agreement between Lowe's Companies, Inc. and Jennifer L. Weber entered into on April 6, 2020.*	10-Q	001-07898	10.3	May 28, 2020
10.38	Offer Letter between Lowe's Companies, Inc. and Dan C. Griggs, Jr. entered into on October 2, 2020.*	10-Q	001-07898	10.2	November 25, 2020
10.39	Offer Letter between Lowe's Companies, Inc. and Dan C. Griggs, Jr. entered into on February 12, 2021.* ‡				
21.1	List of Subsidiaries.‡				
23.1	Consent of Deloitte & Touche LLP.‡				
24.1	Power of Attorney (included on the Signatures page of this Annual Report on Form 10-K).‡				
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡				
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡				

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
101.INS	XBRL Instance Document.‡				
101.SCH	XBRL Taxonomy Extension Schema Document.‡				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.‡				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.‡				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.‡				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.‡				
104	Cover Page Interactive Data File (formatted as Inline XBRL document and included in Exhibit 101).‡				

(1) Schedules have been omitted pursuant to Item 601 (b)(2) of Regulation S-K. Lowe's Companies, Inc. agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule upon request.

* Indicates a management contract or compensatory plan or arrangement.

‡ Filed herewith.

† Furnished herewith.

Item 16 – Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	LOWE'S COMPANIES, INC.
	(Registrant)
March 22, 2021	By: /s/ Marvin R. Ellison
Date	Marvin R. Ellison President and Chief Executive Officer
March 22, 2021	By: /s/ David M. Denton
Date	David M. Denton Executive Vice President, Chief Financial Officer
March 22, 2021	By: /s/ Dan C. Griggs, Jr.
Date	Dan C. Griggs, Jr. Senior Vice President, Tax and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Each of the directors of the registrant whose signature appears below hereby appoints David M. Denton, Dan C. Griggs, Jr., and Ross W. McCanless, and each of them severally, as his or her attorney-in-fact to sign in his or her name and behalf, in any and all capacities stated below, and to file with the Securities and Exchange Commission any and all amendments to this report, making such changes in this report as appropriate, and generally to do all such things on their behalf in their capacities as directors and/or officers to enable the registrant to comply with the provisions of the Securities Exchange Act of 1934, and all requirements of the Securities and Exchange Commission.

/s/ Richard W. Dreiling	Chairman of the Board	March 22, 2021
Richard W. Dreiling		Date
/s/ Marvin R. Ellison	President, Chief Executive Officer and Director	March 22, 2021
Marvin R. Ellison		Date
/s/ Raul Alvarez	Director	March 22, 2021
Raul Alvarez		Date
/s/ David H. Batchelder	Director	March 22, 2021
David H. Batchelder		Date
/s/ Angela F. Braly	Director	March 22, 2021
Angela F. Braly		Date
/s/ Sandra B. Cochran	Director	March 22, 2021
Sandra B. Cochran		Date
/s/ Laurie Z. Douglas	Director	March 22, 2021
Laurie Z. Douglas		Date
/s/ Brian C. Rogers	Director	March 22, 2021
Brian C. Rogers		Date
/s/ Bertram L. Scott	Director	March 22, 2021
Bertram L. Scott		Date
/s/ Lisa W. Wardell	Director	March 22, 2021
Lisa W. Wardell		Date
/s/ Eric C. Wiseman	Director	March 22, 2021
Eric C. Wiseman		Date

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 31, 2020

or

☐	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to _________

Commission file number 1-7898

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LOWE'S COMPANIES, INC.

(Exact name of registrant as specified in its charter)

North Carolina	**56-0578072**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1000 Lowe's Blvd.		
Mooresville	**North Carolina**	**28117**
(Address of principal executive offices)		(Zip Code)

Registrant's telephone number, including area code **(704) 758-1000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.50 per share	LOW	**New York Stock Exchange**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

As of August 2, 2019, the last business day of the Company’s most recent second quarter, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was $77.0 billion based on the closing sale price as reported on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT 3/20/2020
Common Stock, $0.50 par value	754,948,648

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Portions of the Proxy Statement for Lowe’s 2020 Annual Meeting of Shareholders	Part III

LOWE'S COMPANIES, INC.
- TABLE OF CONTENTS -

		Page No.
PART I		
Item 1.	Business	5
Item 1A.	Risk Factors	10
Item 1B.	Unresolved Staff Comments	17
Item 2.	Properties	17
Item 3.	Legal Proceedings	17
Item 4.	Mine Safety Disclosures	17
	Information About Our Executive Officers	18
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	19
Item 6.	Selected Financial Data	20
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 8.	Financial Statements and Supplementary Data	36
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	76
Item 9A.	Controls and Procedures	76
Item 9B.	Other Information	76
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	77
Item 11.	Executive Compensation	77
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	77
Item 13.	Certain Relationships and Related Transactions, and Director Independence	77
Item 14.	Principal Accountant Fees and Services	77
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	78
Item 16.	Form 10-K Summary	87
	Signatures	88

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements including words such as “believe”, “expect”, “anticipate”, “plan”, “desire”, “project”, “estimate”, “intend”, “will”, “should”, “could”, “would”, “may”, “strategy”, “potential”, “opportunity” and similar expressions are forward-looking statements. Forward-looking statements involve estimates, expectations, projections, goals, forecasts, assumptions, risks and uncertainties. Forward-looking statements include, but are not limited to, statements about future financial and operating results, Lowe’s plans, objectives, business outlook, priorities, expectations and intentions, expectations for sales growth, comparable sales, earnings and performance, shareholder value, capital expenditures, cash flows, the housing market, the home improvement industry, demand for services, share repurchases, Lowe’s strategic initiatives, including those relating to acquisitions and dispositions by Lowe’s and the expected impact of such transactions on our strategic and operational plans and financial results, and any statement of an assumption underlying any of the foregoing and other statements that are not historical facts. Although we believe that the expectations, opinions, projections and comments reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and we can give no assurance that such statements will prove to be correct. Actual results may differ materially from those expressed or implied in such statements.

For a detailed description of the risks and uncertainties that we are exposed to, you should read Item 1A, “Risk Factors” included elsewhere in this Annual Report. All forward-looking statements speak only as of the date of this Annual Report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section and in Item 1A, “Risk Factors” included elsewhere in this Annual Report. We do not undertake any obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this Annual Report.

Part I

Item 1 - Business

General Information

Lowe's Companies, Inc. and subsidiaries (the Company or Lowe's) is a Fortune® 50 company and the world's second largest home improvement retailer. As of January 31, 2020, Lowe's operated 1,977 home improvement and hardware stores, representing approximately 208 million square feet of retail selling space. These operations included 1,728 stores located across 50 U.S. states, as well as 249 stores in Canada. During 2018 and 2019, the Company initiated a strategic reassessment of its business which has resulted in the exit of Orchard Supply Hardware and its operations in Mexico, as well as the closure of under-performing stores across the U.S. and Canada.

The Canadian stores include RONA inc. (RONA) which was acquired by Lowe's in 2016. RONA operates 185 stores in Canada as of January 31, 2020, as well as services approximately 237 dealer-owned stores. The RONA stores represent various complementary store formats operating under various banners.

Lowe's was incorporated in North Carolina in 1952 and has been publicly held since 1961. The Company's common stock is listed on the New York Stock Exchange - ticker symbol "LOW".

See Item 6, "Selected Financial Data", of this Annual Report on Form 10-K (Annual Report), for historical revenues, profits and identifiable assets. For additional information about the Company's performance and financial condition, see also Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this Annual Report.

Customers, Market and Competition

Our Customers

We serve homeowners, renters, and professional customers (Pro customers). Individual homeowners and renters complete a wide array of projects and vary along the spectrum of do-it-yourself (DIY) and do-it-for-me (DIFM). The Pro customer consists of two broad categories: construction trades; and maintenance, repair & operations.

Our Market

The U.S. market remains our predominant market, accounting for approximately 93% of consolidated sales for the fiscal year ended January 31, 2020. We are among the many businesses, including home centers, paint stores, hardware stores, lumber yards and garden centers, whose revenues are included in the Building Material and Garden Equipment and Supplies Dealers Subsector (444) of the Retail Trade Sector of the North American Industry Classification System (NAICS), the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

NAICS 444 represents roughly half of what we consider the total U.S. market for our products and services. The broader market in which Lowe's operates includes home-related sales through a variety of companies beyond those in NAICS 444. These consist of other companies in the retail sector, including mass retailers, home goods specialty stores, and online retailers, as well as wholesalers that provide home-related products and services to homeowners, businesses, and the government.

There are many variables that affect consumer demand for the home improvement products and services Lowe's offers. Key indicators we monitor include real disposable personal income, employment, home prices, and housing turnover. We also monitor demographic and societal trends that shape home improvement industry growth.

Our Competition

The home improvement industry includes a broad competitive landscape that continues to evolve. Lowe's competes with national and international home improvement warehouse chains and lumber yards in most of the markets we serve. We also compete with traditional hardware, plumbing, electrical, home supply retailers, and maintenance and repair organizations. In addition, we compete with general merchandise retailers, warehouse clubs, online, and other specialty retailers as well as service providers that install home improvement products. Location of stores, product assortment, product pricing and customer service continue to be key competitive factors in our industry, while the evolution of technology and customer expectations also underscores the importance of omni-channel capabilities as a competitive factor. To ensure ongoing competitiveness, Lowe's focuses on delivering the right home improvement products, with the best service and value, across every channel and community we serve. See further discussion of competition in Item 1A, "Risk Factors", of this Annual Report.

Products and Services

Our Products

Product Selection
To meet customers' varying needs, we offer a complete line of products for construction, maintenance, repair, remodeling, and decorating. We offer home improvement products in the following categories: Appliances, Décor, Paint, Hardware, Millwork, Lawn & Garden, Lighting, Lumber & Building Materials, Flooring, Kitchens & Bath, Rough Plumbing & Electrical, Seasonal & Outdoor Living, and Tools. A typical Lowe's-branded home improvement store stocks approximately 35,000 items, with hundreds of thousands of additional items available through our Special Order Sales system and various online selling channels. See Note 18 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data", of this Annual Report for historical revenues by product category for each of the last three fiscal years.

We are committed to offering a wide selection of national brand-name merchandise complemented by our selection of private brands. In addition, we are dedicated to ensuring the products we sell are sourced in a socially responsible, efficient, and cost-effective manner.

National Brand-Name Merchandise
In many product categories, customers look for a familiar and trusted national brand to instill confidence in their purchase. Lowe's home improvement stores carry a wide selection of national brand-name merchandise such as Whirlpool®, GE®, LG®, and Samsung® appliances, Stainmaster® carpets, Sherwin-Williams® and Valspar® paints and stains, Pella® windows and doors, Pergo® hardwood flooring, DeWALT® power tools, Metabo® pneumatic tools, Weber® and Char-Broil® grills, Owens Corning® insulation and roofing, GAF® roofing, James Hardie® fiber cement siding, Marshalltown® masonry tools and concrete, Husqvarna® outdoor power equipment, John Deere® riding lawn mowers, Werner® ladders, Quoizel® lighting, Nest® products, SharkBite® plumbing products, A. O. Smith® water heaters, Norton® abrasives, and many more. In 2019, we completed our rollout of CRAFTSMAN® tools. Our merchandise selection provides the retail and Pro customer a one-stop shop for a wide variety of national brand-name merchandise needed to complete home improvement, repair, maintenance, or construction projects.

Private Brands
Private brands are an important element of our overall portfolio, helping to increase customer loyalty, drive sales, and expand differentiation. We have a strong private brand presence across core categories, including some of our most valuable brands such as: Kobalt® tools, allen+roth® home décor products, Project Source® high-value project completers, Holiday Living® seasonal products, Harbor Breeze® ceiling fans, Sta-Green® lawn and garden products, Moxie® cleaning products, Reliabilt® doors, windows, and hardware, and Utilitech® electrical and utility products.

Supply Chain
We source our products from vendors worldwide and believe that alternative and competitive suppliers are available for virtually all of our products. Whenever possible, we purchase directly from manufacturers to provide savings for customers and improve our gross margin.

To efficiently move product from our vendors to our stores and maintain in-stock levels, we own and operate distribution facilities that enable products to be received from vendors, stored and picked, or cross-docked, and then shipped to our retail locations or directly to customers. These facilities include 15 regional distribution centers (RDC) and 15 flatbed distribution centers (FDC) in the United States. The FDCs distribute merchandise that requires special handling due to size or type of packaging such as lumber, boards, panel products, pipe, siding, ladders, and building materials. On average, each RDC and FDC serves approximately 115 stores. We also own and operate seven distribution centers, including four lumber yards, to serve our Canadian market.

In addition to the RDCs and FDCs, we also operate coastal holding and transload facilities to handle import product, bulk distribution centers (BDC) to handle appliances and other big and bulky product, cross-dock delivery terminals (XDT) to fulfill final mile box truck deliveries, and a direct fulfillment center focused on parcel post eligible products. In fiscal 2019, we enhanced our distribution network by adding four XDTs and two BDCs, in addition to relocating one BDC.

Collectively, our facilities enable our import and e-commerce, as well as parcel post eligible products, to get to their destination as efficiently as possible. Most parcel post items can be ordered by a customer and delivered within two business days at standard shipping rates.

In fiscal 2019, on average, approximately 75% of the total dollar amount of merchandise we purchased was shipped through our distribution network, while the remaining portion was shipped directly to our stores from vendors.

Our Services

Installed Sales
We offer installation services through independent contractors in many of our product categories, with Appliances, Flooring, Kitchens & Bath, Lumber & Building Materials, and Millwork accounting for the majority of installed sales. Our Installed Sales model, which separates selling and project administration tasks, allows our sales associates to focus on project selling, while project managers ensure that the details related to installing the products are efficiently executed. Installed Sales, which includes both product and labor, accounted for approximately 6% of total sales in fiscal 2019.

Extended Protection Plans and Repair Services
We offer extended protection plans for various products within the Appliances, Kitchens & Bath, Décor, Millwork, Rough Plumbing & Electrical, Seasonal & Outdoor Living, Tools, and Hardware categories. These protection plans provide customers with product protection that enhances or extends coverage offered by the manufacturer’s warranty and provides additional customer-friendly benefits that go beyond the scope of a manufacturer’s warranty. The protection plans provide in-warranty benefits and out-of-warranty repair services for major appliances, outdoor power equipment, tools, grills, fireplaces, air conditioners, water heaters, and other eligible products through our stores or in the home through the Lowe’s Authorized Service Repair Network. We offer replacement plans for products in most of these categories when priced below $300, or otherwise specified category-specific price points. Our contact center takes customers’ calls, assesses the problems, and facilitates resolutions, making after-sales service easier for our customers by managing the entire process.

Selling Channels

We are continuing to enhance our omni-channel capabilities, which allows our customers to move from channel to channel with simple and seamless transitions even within the same transaction. For example, for many projects, more than half of our customers conduct research online before making an in-store purchase. For purchases made on Lowes.com, customers may pick up their purchase in-store, have their purchase delivered from a store, or have their purchase parcel shipped. In addition, flexible fulfillment options are available for in-store purchases and those made through the contact center. Regardless of the channels through which customers choose to engage with us, we strive to provide them with a seamless experience across channels and an endless aisle of products, enabled by our flexible fulfillment capabilities. Our ability to sell products in-store, online, on-site, or through our contact centers speaks to our ability to leverage our existing infrastructure with the omni-channel capabilities we continue to introduce.

In-Store
Our 1,792 Lowe’s-branded home improvement stores, inclusive of 1,728 in the U.S. and 64 in Canada, are generally open seven days per week and average approximately 112,000 square feet of retail selling space, plus approximately 32,000 square feet of outdoor garden center selling space. The 185 RONA stores operate under various complementary store formats that address target customers and occasions. Our home improvement stores in the U.S. and Canada offer similar products and services, with certain variations based on local market factors. We continue to develop and implement tools to make our sales associates more efficient and to integrate our order management and fulfillment processes. Our home improvement stores have Wi-Fi capabilities that provide customers with internet access, making information available quickly to further simplify the shopping experience.

Online
Through our websites and mobile applications, we seek to empower consumers by providing a 24/7 shopping experience, online product information, customer ratings and reviews, online buying guides and how-to videos and other information. These tools help consumers make more informed purchasing decisions and give them increased confidence to undertake home improvement projects. We enable customers to choose from a variety of fulfillment options, including buying online and picking up in-store, as well as delivery or parcel shipment to their homes.

On-Site

We have on-site specialists available for retail and Pro customers to assist them in selecting products and services for their projects. Our Pro Sales Managers meet with Pro customers at their place of business or on a job site and leverage nearby stores and our distribution network to ensure we meet customer needs for products and resources. In addition, our Project Specialist Exteriors (PSE) program is available in a majority of U.S. Lowe's home improvement stores to discuss exterior projects such as roofing, siding, fencing, and windows, whose characteristics lend themselves to an in-home consultative sales approach.

Contact Centers
Lowe's operates three contact centers which are located in Wilkesboro, NC; Albuquerque, NM; and Indianapolis, IN. These contact centers help Lowe's enable an omni-channel customer experience by providing the ability to tender sales, coordinate deliveries, manage after-sale installations, facilitate repair services for Appliances and Outdoor Power Equipment, and answer general customer questions via phone, mail, e-mail, live chat, and social media.

Employees

As of January 31, 2020, we employed approximately 200,000 full-time and 120,000 part-time employees. Certain employees in Canada are subject to collective bargaining agreements. No other employees are subject to collective bargaining agreements. Management considers its relations with employees to be good.

Seasonality and Working Capital

The retail business in general is subject to seasonal influences, and our business is, to some extent, seasonal. Historically, we have realized the highest volume of sales during our second fiscal quarter (May, June, and July) and the lowest volume of sales during our fourth fiscal quarter (November, December, and January). Accordingly, our working capital requirements have historically been greater during our fourth fiscal quarter as we build inventory in anticipation of the spring selling season and as we experience lower fourth fiscal quarter sales volumes. We fund our working capital requirements primarily through cash flows generated from operations, but also with short-term borrowings, as needed. For more detailed information, see the Financial Condition, Liquidity and Capital Resources section in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this Annual Report.

Intellectual Property

The name "Lowe's" is a registered service mark of one of our wholly owned subsidiaries. We consider this mark and the accompanying name recognition to be valuable to our business. This subsidiary and other wholly owned subsidiaries own and maintain various additional registered and unregistered trademarks, trade names and service marks, including but not limited to retail names "RONA" and "Reno Depot", and private brand product names "Kobalt" and "allen+roth". These subsidiaries also maintain various Internet domain names that are important to our business, and we also own registered and unregistered copyrights. In addition, we maintain patent portfolios related to some of our products and services and seek to patent or otherwise protect certain innovations that we incorporate into our products, services, or business operations.

Sustainability

Lowe's is committed to leveraging our time, talents and resources to make our world better by making our communities stronger and encouraging people to want to connect with us as their partner in home improvement.

Sustainability and environmental matters are overseen by the Sustainability Committee of the Board of Directors. The Sustainability Committee monitors sustainability and environmental related trends and risks. The Company also has a Sustainability Council, led by senior executives focused on efficiently integrating sustainability into day-to-day operations. Our strategy focuses on responsible sourcing, offering safe and eco-friendly products, maintaining a diverse, healthy, engaged, and skilled workforce, supporting our local communities through safe and affordable housing, and operating ethically and responsibly. We have established goals to advance our corporate responsibility efforts, which can be found in our annual corporate responsibility report available at Newsroom.Lowes.com/Responsibility.

In fiscal 2019, Lowe's was added to the Dow Jones Sustainability North America Index based on environmental, social, and governance practices. We want our customers to feel good about the high-quality products they choose at

Lowe’s. Our products undergo a thorough selection process, beginning with our sourcing decisions. We give considerable attention to how our products are created and to the people who make them. Through collaboration and established management systems, we monitor our suppliers’ practices to secure high-quality products from suppliers who support worker rights and protect the environment. In fiscal 2019, we published a human rights policy and a revised conflict minerals policy to hold all suppliers to our rigorous standards. We also include innovative, efficient and eco-certified products in our portfolio that provide health and environmental benefits to meet the needs of an increasing customer demand. We continue to work with local and regional utilities to offer customers assorted rebates for a variety of environmentally efficient products including ENERGY STAR and WaterSense®. As a responsible corporate citizen, Lowe's takes environmental sustainability and product safety seriously. Lowe's upholds a wood sourcing policy that provides that all wood products sold in our stores originate from well-managed, non-endangered forests and are seeking to achieve 100 percent Forest Stewardship Council (FSC) certification for all wood products sourced from identified regions at risk by the end of 2020. In fiscal 2019, we conducted a pilot audit for compliance verification to Lowe's wood sourcing policy and plan to roll out the audit process broadly in 2020. Also, Lowe's updated our safer chemicals policy, which guides our actions toward offering safer, more eco-friendly alternatives. In addition, Lowe's stopped the sale of all products containing methylene chloride and N-Methyl-2-Pyrrolidone (NMP) online and from our stores and stopped purchasing residential carpet and rugs containing polyfluoroalkyl substances (PFAS).

We are committed to reducing our climate impact through sustainable practices and conservation. In fiscal 2019, 363 retail locations upgraded to interior light-emitting diode (LED) lighting. We also replaced 118 stores' aging HVAC units with high-efficiency models. Our renewable energy portfolio will expand in the first quarter of 2020 when 100 megawatts of wind energy becomes operational in central Texas. The wind turbines will produce the equivalent amount of energy to power all 144 Lowe's stores in Texas. We met both of our 2020 climate goals ahead of schedule and developed a more aggressive goal for 2030, to reduce our absolute scope 1 and 2 emissions by 40% below 2016 levels.

We are dedicated to promoting sustainable practices in the transportation industry, and we collaborate with the Environmental Protection Agency's SmartWay program to reduce transportation emissions by managing and reducing fuel usage by creating incentives for freight contractors to improve efficiency and are proud to be the first retailer to achieve the Environmental Protection Agency's SmartWay Excellence Award ten years in a row.

Lowe's participates in the Carbon Disclosure Project's (CDP) climate, forestry, and water security questionnaires to benchmark and quantify our environmental practices in an effort to be transparent in our progress and assist in the reduction of our contributions to climate change. In fiscal 2019, Lowe's externally verified its greenhouse gas emissions data to validate our findings and increase confidence in our reporting. At a local level, store waste, including cardboard, broken appliances, wood pallets, and more, are recycled through national and regional partners, and we provide in-store recycling centers for our customers to bring in plastic planter pots, compact fluorescent lamp bulbs, plastic bags, and rechargeable batteries.

For more information about Lowe's sustainability efforts, please visit Newsroom.Lowes.com/Responsibility.

Investing in Our Communities

Lowe's believes in giving back to the neighborhoods where its associates live and work. Through charitable contributions, associate volunteerism and nonprofit partnerships, Lowe's has invested in communities since its inception.

As a Fortune® 50 home improvement company, Lowe's is committed to creating safe and affordable housing and helping develop the next generation of skilled trade experts. Lowe's and the Lowe's Foundation donated more than $42 million in 2019 to nonprofit organizations supporting local communities in these areas, as well as military and disaster response.

This year, Lowe's worked with organizations like Habitat for Humanity International, Rebuilding Together, Sleep In Heavenly Peace, Purple Heart Homes and Operation Finally Home to identify and address critical housing needs nationwide as part of its safe and affordable housing initiatives. By partnering with AMVETS, USO, National Urban League and SkillsUSA, Lowe's is working to address the skilled trades education gap through education, job creation, and community investments.

Lowe's support for communities impacted by disaster goes far beyond clean-up and recovery supplies. Lowe's partners with the American Red Cross, Reach Out WorldWide, Operation BBQ Relief, Federal Alliance for Safe Homes (FLASH) and others to not only respond to immediate needs, but to support impacted areas with rebuilding efforts in the months and years to come. In 2019, Lowe's contributed more than $2 million to disaster relief and mobilized employee volunteers to help communities recovering from natural disasters like Hurricane Dorian, Texas flooding, California wildfires, and tornadoes across the southeast.

Lowe's is also passionate about serving its communities and encourages associates to support the neighborhoods where they live and work. Through the Lowe’s Heroes program, funds are allocated to each U.S. and Canadian store for a project in its community that associates can complete together. In 2019, all Lowe’s stores were able to give back to their communities due to this funding.

In addition, associates at company headquarters participated in on-campus community projects during the year, including assembling disaster cleanup buckets to be deployed to impacted areas after natural disasters and building beds that were donated to Sleep in Heavenly Peace, a nonprofit partner with a goal to end child bedlessness across the United States.

Lowe's is also dedicated to helping each other in times of need. Our Lowe’s Employee Relief Fund, made possible through associate donations and company matching, supports associates in times of significant, unforeseen financial hardship. In 2019, Lowe’s distributed over $2 million, helping 2,151 associates in need.

For more information on Lowe’s partnerships and latest community improvement projects, visit Newsroom.Lowes.com/Responsibility.

Available Information

Our Annual Report, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge through our internet website at www.Lowes.com/investor, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The SEC maintains an Internet site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A - Risk Factors

We describe below certain risks that could adversely affect our results of operations, financial condition, business reputation or business prospects. These risk factors may change from time to time and may be amended, supplemented or superseded by updates to the risk factors contained in our future periodic reports on Form 10-K, Form 10-Q and reports on other forms we file with the SEC. All forward-looking statements about our future results of operations or other matters made by us in this Annual Report, in our Annual Report to Lowe’s Shareholders and in our subsequently filed reports to the SEC, as well as in our press releases and other public communications, are qualified by the risks described below.

You should read these risk factors in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 and our consolidated financial statements and related notes in Item 8. There also may be other factors that we cannot anticipate or that are not described in this Annual Report generally because we do not currently perceive them to be material. Those factors could cause results to differ materially from our expectations. In connection with any investment decision with respect to our securities, you should carefully consider the following risk factors, as well as the other information contained in this report and our other filings with the SEC.

We may be unable to adapt our business concept in a rapidly evolving retail environment to address the changing shopping habits, demands and demographics of our customers, or realize the intended benefits of organizational change initiatives.
The home improvement retail environment, like the retail environment generally, is rapidly evolving, and adapting our business concept to respond to our customers’ changing shopping habits and demands and their changing demographics is critical to our future success. Our success is dependent on our ability to identify and respond to the economic, social, style and other trends that affect demographic and consumer preferences in a variety of our merchandise categories and service offerings. Customers’ expectations about how they wish to research, purchase and receive products and services have also evolved. It is difficult to predict the mix of products and services that our customers will demand. Failure to identify such trends, adapt our business concept, and implement change, growth, and productivity initiatives successfully could negatively affect our relationship with our customers, the demand for the home improvement products and services we sell, the rate of growth of our business, our market share and results of operations.

We may not be able to realize the benefits of our strategic initiatives focused on omni-channel sales and marketing presence if we fail to deliver the capabilities required to execute on them.
Our interactions with customers have evolved into an omni-channel experience as they increasingly are using computers, tablets, mobile phones and other electronic devices to shop in our stores and online and provide feedback and public commentary about all aspects of our business. Omni-channel retail is quickly evolving, and we must anticipate and meet our customers’ expectations and counteract new developments and technology investments by

our competitors. Our customer-facing technology systems must appeal to our customers, function as designed and provide a consistent customer experience. The success of our strategic initiatives to adapt our business concept to our customers' changing shopping habits and demands and changing demographics will require us to deliver large, complex programs requiring integrated planning, initiative prioritization and program sequencing. These initiatives will require new competencies in many positions, and our management, employees and contractors will have to adapt and learn new skills and capabilities. To the extent they are unable

or unwilling to make these transformational changes, we may be unable to realize the full benefits of our strategic initiatives and expand our relevant market access. Failure to realize the benefits of amounts we invest in new technologies, products, or
services could result in the value of those investments being written down or written off. In addition, to support our strategic
initiatives and the related technology investments needed to implement our strategic investments, we must attract and retain a
large number of skilled professionals, including technology professionals. The market for these professionals is increasingly
competitive. Our results of operations, financial condition or business prospects could also be adversely affected if we fail to provide a consistent experience for our customers, regardless of sales channel, if our technology systems do not meet our customers' expectations, if we are unable to counteract new developments and innovations implemented by our competitors or if we are unable to attract, retain and manage the talent succession of additional personnel at various levels of the Company who have the skills and capabilities we need to implement our strategic initiatives and drive the changes that are essential to successfully adapting our business concept in the rapidly changing retail environment.

Our business and our reputation could be adversely affected by cybersecurity incidents and the failure to protect customer, employee, vendor or Company information or to comply with evolving regulations relating to our obligation to protect our systems, assets and such information.
Cyber-attacks and tactics designed to gain access to and exploit sensitive information by breaching mission critical systems of large organizations are constantly evolving, and high profile security breaches leading to unauthorized release of sensitive customer information have occurred in recent years with increasing frequency at a number of major U.S. companies, including several large retailers, despite widespread recognition of the cyber-attack threat and improved data protection methods. As with many other retailers, we collect, process, transmit and store certain personal information about our customers, employees and vendors, as well as confidential, sensitive, proprietary and business, personal and payment card information. Additionally, we use third-party service providers for certain services, such as authentication, content delivery, back-office support and other functions, and we provide such third-party service providers with personal and other confidential information necessary for the services concerned. Despite our continued vigilance and investment in information security, we, like others in our industry, are subject to the risk that unauthorized parties will attempt to gain access to our systems or our information through fraud or other means of deceiving our associates, third party providers, or vendors, and we or our third-party service providers cannot guarantee that we or they are able to adequately anticipate or prevent a future breach in our or their systems that results in the unauthorized access to, destruction, misuse or release of personal information or other sensitive data. It can be difficult to preempt or detect ever-evolving forms of cyber-attacks. If a ransomware attack occurs, it is possible that we could be prevented from accessing our own data. Our information security or our service providers' information security may also be compromised because of human errors, including by employees, or system errors. Our systems and our service providers' systems are additionally vulnerable to a number of other causes, such as critical infrastructure outages, computer viruses, technology system failures, catastrophic events or cyber-attacks, including the use of malicious codes, worms, phishing and ransomware. In the event that our systems are breached or damaged for any reason, we may also suffer loss or unavailability of data and interruptions to our business operations while such breach or damage is being remedied. Should these events occur, the unauthorized disclosure, loss or unavailability of data and disruption to our business may have a material adverse effect on our reputation, drive existing and potential customers away and lead to financial losses from remedial actions, or potential liability, including possible litigation and punitive damages. A security breach resulting in the unauthorized release of data from our information systems or our third-party service providers' information systems could also materially increase the costs we already incur to protect against such risks and require dedication of substantial resources to manage the aftermath of such a breach. Data privacy and cybersecurity laws in the United States and internationally are constantly changing, and the implementation of these laws has become more complex.

In the United States alone, we may be subject to regulation at both the federal and state level. In order to maintain our compliance with such laws as they come to fruition, we may sustain increased costs in order to continually evaluate our policies and processes and adapt to new requirements that are or become applicable to us. As the regulatory environment relating to retailers' and other companies' obligation to protect personal information becomes stricter, a material failure on our part to comply with applicable regulations could subject us to fines, other regulatory sanctions or government investigation, and potentially to lawsuits brought by private individuals, regulators or states' attorney general.

We could be adversely affected by the failure to adequately protect and maintain our intellectual property rights or by claims of third parties that we infringe their intellectual property rights.

Our proprietary rights in our trademarks, trade names, service marks, domain names, copyrights, patents, trade secrets and other intellectual property rights are valuable assets of our business. We rely on a combination of trademark law, patent law, copyright law, trade secret protections and contractual arrangements, such as nondisclosure and confidentiality agreements, to protect our proprietary rights. Maintenance and, when necessary, enforcement of our intellectual property rights require expenditure of financial and managerial resources, and despite our efforts, we may not always be able to effectively protect all such rights. We may not be able to prevent or even discover every instance of unauthorized third party uses of our intellectual property or dilution of our brand names, such as when a third party uses trademarks that are identical or similar to our own.

Additionally, our trade secrets are vulnerable to public disclosure by our own employees or as a result of a breach of or damage to our systems, which could result in theft of our proprietary property. We may also be subject to intellectual property infringement lawsuits, brought by third parties against us claiming that our operations, products or services infringe third party rights (whether meritorious or not), including patent and trademark rights, which can be time consuming and costly to defend or settle and may cause significant diversion of management attention and result in substantial monetary damages, injunctive orders against us, unfavorable royalty-bearing licensing agreements or bad publicity.

We are subject to payments-related risks that could increase our operating costs, expose us to fraud, subject us to potential liability and potentially disrupt our business.
We accept payments using a variety of methods, including credit cards, debit cards, credit accounts, our private label and co-branded credit cards, gift cards, consumer invoicing and physical bank checks, and we may offer different payment options over time. These payment options subject us to many compliance requirements, including, but not limited to, compliance with payment card association operating rules, including data security rules, certification requirements, rules governing electronic funds transfers and Payment Card Industry Data Security Standards. They also subject us to potential fraud by criminal elements seeking to discover and take advantage of security vulnerabilities that may exist in some of these payment systems. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, electronic checks, gift cards and promotional financing, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected.

As customer-facing technology systems become an increasingly important part of our omni-channel sales and marketing strategy, the failure of those systems to perform effectively and reliably could keep us from delivering positive customer experiences.
Access to the Internet from computers, tablets, smart phones and other mobile communication devices has empowered our customers and changed the way they shop and how we interact with them. Our websites, including Lowes.com and Lowesforpros.com, are a sales channel for our products, and are also a method of making product, project and other relevant information available to our customers that impacts our in-store sales. Additionally, we have multiple affiliated websites and mobile apps through which we seek to inspire, inform, cross-sell, establish online communities among and otherwise interact with our customers. Performance issues with these customer-facing technology systems, including temporary outages caused by distributed denial of service, ransomware or other cyber-attacks, or a complete failure of one or more of them without a disaster recovery plan that can be quickly implemented, could quickly destroy the positive benefits they provide to our home improvement business and negatively affect our customers' perceptions of Lowe's as a reliable online vendor and source of information about home improvement products and services.

If we fail to hire, train, manage and retain qualified sales associates and specialists with expanded skill sets or corporate support staff with the capabilities of delivering on strategic objectives, we could lose sales to our competitors, and our labor costs, resulting from operations or the execution of corporate strategies, could be negatively affected.
Our customers, whether they are homeowners, renters or commercial businesses, expect our sales associates and specialists to be well trained and knowledgeable about the products we sell and the home improvement services we provide. We compete with other retailers for many of our sales associates and specialists, and we invest significantly in them with respect to training and development to strive for high engagement. Increasingly, our sales associates and specialists must have expanded skill sets, including, in some instances, the ability to do in-home or telephone sales. A challenge we face is attracting and retaining a sufficiently diverse workforce that can deliver relevant, culturally competent and differentiated experiences for a wide variety of culturally diverse customers. In fact, in many of our stores, our employees must be able to serve customers whose primary language and cultural traditions are different from their own. Additionally, in order to deliver on the omni-channel expectations of our customers, we rely on the specialized training and capabilities of corporate support staff, which are broadly sought after by our competitors. If we are unable to hire, train, manage and retain qualified sales associates and specialists, the quality of service we provide to our customers may decrease and our results of operations could be negatively affected. Furthermore, our ability to meet our labor needs, particularly in a competitive labor market, while controlling our costs is subject to a variety of external factors, including wage rates, the availability of and competition for talent, health care and other

benefit costs, our brand image and reputation, changing demographics and adoption of new or revised immigration, employment, and labor laws and regulations. Periodically, we are subject to labor organizing efforts, and if we become subject to collective bargaining agreements in the future, it could adversely affect how we operate our business and adversely affect our labor costs and our ability to retain a qualified workforce.

Positively and effectively managing our public image and reputation is critical to our business success, and, if our public image and reputation are damaged, it could negatively impact our relationships with our customers, vendors and store associates and specialists and, consequently, our business and results of operations.
Our public image and reputation are critical to ensuring that our customers shop at Lowe's, our vendors want to do business with Lowe's and our sales associates and specialists want to work for Lowe's. We must continue to manage, preserve and grow Lowe's public image and reputation. Any negative incident can erode trust and confidence quickly, and adverse publicity about us could damage our reputation and brand image, undermine our customers' confidence, reduce demand for our products and services, affect our relationships with current and future vendors, impact our results of operations and affect our ability to retain and recruit store associates and specialists. The significant expansion in the use of social media over recent years has compounded the potential scope of the negative publicity that could be generated by such negative incidents.

Strategic transactions, such as our acquisition of RONA and Maintenance Supply Headquarters, involve risks, and we may not realize the expected benefits because of numerous uncertainties and risks.
We regularly consider and enter into strategic transactions, including mergers, acquisitions, joint ventures, investments and other growth, market and geographic expansion strategies, with the expectation that these transactions will result in increases in sales, cost savings, synergies and other various benefits. Our ability to deliver the expected benefits from any strategic transaction is subject to numerous uncertainties and risks, including our ability to integrate personnel, labor models, financial, IT and other systems successfully; disruption of our ongoing business and distraction of management; hiring additional management and other critical personnel; and increasing the scope, geographic diversity and complexity of our operations. Effective internal controls are necessary to provide reliable and accurate financial reports, and the integration of businesses may create complexity in our financial systems and internal controls and make them more difficult to manage. Integration of businesses into our internal control system could cause us to fail to meet our financial reporting obligations. Additionally, any impairment of goodwill or other assets acquired or divested in a strategic transaction or charges to earnings associated with any strategic transaction, may materially reduce our earnings. Our shareholders may react unfavorably to our strategic transactions. We may not realize any anticipated benefits from such transactions, we may be exposed to additional liabilities of any acquired business or joint venture, and we may be exposed to litigation in connection with the strategic transaction. Further, we may finance these strategic transactions by incurring additional debt, which could increase leverage or impact our ability to access capital in the future.

Failure to achieve and maintain a high level of product and service quality could damage our image with customers and negatively impact our sales, profitability, cash flows and financial condition.
Product and service quality issues could result in a negative impact on customer confidence in Lowe's and our brand image. If our product and service offerings do not meet applicable safety standards or our customers' expectations regarding safety or quality, we could experience lost sales and increased costs and be exposed to legal, financial and reputational risks. Actual, potential or perceived product safety concerns could expose us to litigation, as well as government enforcement action, and result in costly product recalls and other liabilities. As a result, Lowe's reputation as a retailer of high-quality products and services, including both national and Lowe's private brands, could suffer and impact customer loyalty.

Our business could be affected by uncharacteristic or significant weather conditions, including natural disasters, could impact our operations.
Natural disasters, such as hurricanes and tropical storms, fires, floods, tornadoes, and earthquakes; unseasonable, or unexpected or extreme weather conditions; or similar disruptions and catastrophic events can affect consumer spending and confidence and consumers' disposable income, particularly with respect to home improvement or construction projects, and could have an adverse effect on our financial performance. These types of events can also adversely affect our work force and prevent associates and customers from reaching our stores and other facilities. They can also disrupt or disable operations of stores, support centers, and portions of our supply chain and distribution network, including causing reductions in the availability of inventory and disruption of utility services. In addition, these events may affect our information systems, resulting in disruption to various aspects of our operations, including our ability to transact with customers and fulfill orders and to communicate with our stores. As a consequence of these or other catastrophic or uncharacteristic events, we may experience interruption to our operations, increased costs, or losses of property, equipment or inventory, which would adversely affect our revenue and profitability.

We have many competitors who could take sales and market share from us if we fail to execute our merchandising, marketing and distribution strategies effectively, or if they develop a substantially more effective or lower cost means of meeting customer needs, resulting in a negative impact on our business and results of operations.

We operate in a highly competitive market for home improvement products and services and have numerous large and small, direct and indirect competitors. The principal competitive factors in our industry include convenience, customer service, quality and price of merchandise and services, in-stock levels, and merchandise assortment and presentation. We face growing competition from online and omni-channel retailers who have a similar product or service offering. Customers are increasingly able to quickly comparison shop and determine real-time product availability and price using digital tools. Further, online and omni-channel retailers continue to focus on delivery services, as customers are increasingly seeking faster, guaranteed delivery times and low-price or free shipping, and we must make investments to keep up with our customers' evolving shopping preferences. Our ability to be competitive on delivery times, delivery costs, and delivery options depends on many factors, including successful implementation of our initiatives related to supply chain transformation. Our failure to respond effectively to competitive pressures and changes in the markets for home improvement products and services could affect our financial performance. Moreover, changes in the promotional pricing and other practices of our competitors, including the effects of competitor liquidation activities, may impact our results.

Our inability to effectively and efficiently manage and maintain our relationships with selected suppliers of brand name products could negatively impact our business operations and financial results.
We form strategic relationships with selected suppliers to market and develop products under a variety of recognized and respected national and international brand names. We also have relationships with certain suppliers to enable us to sell proprietary products which differentiate us from other retailers. The inability to effectively and efficiently manage and maintain our relationships with these suppliers could negatively impact our business operations and financial results.

Failure of a key vendor or service provider that we cannot quickly replace could disrupt our operations and negatively impact our business, financial condition and results of operations.
We rely upon a number of vendors as the sole or primary source of some of the products we sell. We also rely upon many independent service providers for technology solutions and other services that are important to many aspects of our business. Many of these vendors and service providers have certain products or specialized skills needed to support our business concept and our strategies. If these vendors or service providers discontinue operations or are unable to perform as expected or if we fail to manage them properly or we are unable to replace them quickly, our business could be adversely affected, at least temporarily, until we are able to replace them.

If our domestic or international supply chain or our fulfillment network for our products is ineffective or disrupted for any reason, or if these operations are subject to trade policy changes, our results of operations could be adversely affected.
We source, stock and sell products from domestic and international vendors, and their ability to reliably and efficiently fulfill our orders is critical to our business success. We source a large number of our products from foreign manufacturers, with China being the dominant import source. The current United States administration has enacted, and signaled the possibility of additional, changes in certain tax and trade policies, tariffs and other regulations affecting trade between the United States and other countries, such as the imposition of additional tariffs or duties on imported products and the exit or renegotiation of certain trade agreements and the rules of the World Trade Organization. While it is not possible to predict the long term impacts such changes may have, because we source a large percentage of our merchandise from outside the United States, future changes in tax or trade policies, tariffs or trade relations could adversely affect our business, results of operations, effective income tax rate, liquidity and net income. In addition, other countries may change their business and trade policies in anticipation of or in response to increased import tariffs and other changes in United States trade policy and regulations. The degree of our exposure is dependent on, among other things, the type of goods, rates imposed, and timing of tariffs. The impact to our business, including net sales and gross margin, will be influenced in part by merchandising and pricing strategies in response to potential costs increases by us and our competitors. While these potential impacts are uncertain, they could have an adverse impact on our financial results.

Financial instability among key vendors, political instability and labor unrest in source countries or elsewhere in our supply chain, changes in the total costs in our supply chain (fuel, labor and currency exchange rates), port labor disputes and security, the outbreak of pandemics, weather-related events, natural disasters, work stoppages, shipping capacity restraints, changes in trade policy, retaliatory trade restrictions imposed by either the United States or a major source country, tariffs or duties, fluctuations in currency exchange rates and transport availability, capacity and costs are beyond our control and could negatively impact our business if they seriously disrupted the movement of products through our supply chain or increased their costs. Additionally, as we add fulfillment capabilities or pursue strategies with different fulfillment requirements, our fulfillment network becomes increasingly complex and operating it becomes more challenging. If our fulfillment network does not operate properly or if a vendor fails to deliver on its commitments, we could experience delays in inventory, increased delivery costs or merchandise out-of-stocks that could lead to lost sales and decreased customer confidence, and adversely affect our results of operations.

Failure to effectively manage our third-party installers could result in increased operational and legal risks and negatively impact our business, financial condition and results of operations.

We use third-party installers to provide installation services to our customers, and, as the general contractor, we are subject to regulatory requirements and risks applicable to general contractors, including the management of the permitting, licensing and quality of our third-party installers. Our failure to effectively manage such requirements, the third-party installers, and our internal processes regarding installation services could result in lost sales, fines and lawsuits, as well as damage to our reputation, which could negatively affect our business.

Operating internationally presents unique challenges, including some that have required us to adapt our store operations, merchandising, marketing and distribution functions to serve customers in Canada. Our business and results of operations could be negatively affected if we are unable to effectively address these challenges.
We operate stores in Canada. Expanding and operating internationally presents unique challenges that may increase the anticipated costs and risks of operation and expansion and slow the anticipated rate of expansion. Our future operating results in Canada or in other countries or regions in which we may operate in the future could be negatively affected by a variety of factors, including unfavorable political or economic factors, adverse tax consequences, volatility in foreign currency exchange rates, increased difficulty in enforcing intellectual property rights, costs and difficulties of managing international operations, challenges with identifying and contracting with local suppliers and other risks created as a result of differences in culture, laws and regulations. These factors could restrict our ability to operate our international businesses profitably and therefore have a negative impact on our results of operations and financial position. In addition, our reported results of operations and financial position could also be negatively affected by exchange rates when the activities and balances of our foreign operations are translated into U.S. dollars for financial reporting purposes.

We must comply with various and multiple laws and regulations that differ substantially in each area where we operate. Changes in existing or new laws and regulations or regulatory enforcement priorities, or our inability to comply with such laws and regulations, could adversely affect our business, financial condition and results of operations.
Laws and regulations at the local, regional, state, federal and international levels change frequently, and the changes can impose significant costs and other burdens of compliance on our business and our vendors. If we fail to comply with these laws, rules and regulations, or the manner in which they are interpreted or applied, we may be subject to government enforcement action, litigation, damage to our reputation, civil and criminal liability, damages, fines and penalties and increased cost of regulatory compliance, any of which could adversely affect our results of operations and financial performance. These laws, rules and regulations include, but are not limited to, import and export requirements, U.S. laws such as the Foreign Corrupt Practices Act and local laws prohibiting corrupt payments to governmental officials. Although we have implemented policies and procedures to help ensure compliance with these laws, rules and regulations, there can be no certainty that our employees and third parties with whom we do business will not take actions in violation of our policies or laws. Many of these laws, rules and regulations are complex, evolving and are subject to varying interpretations and enforcement actions. Any changes in regulations, the imposition of additional regulations, or the enactment of any new legislation could have an adverse impact, directly or indirectly, on our financial condition and results of operations. We may also be subject to investigations or audits by governmental authorities and regulatory agencies as a result of enforcing existing laws and regulations or changes in enforcement priorities, which can occur in the ordinary course of business or which can result from increased scrutiny from a particular agency towards an industry, country or practice.

Future litigation or governmental proceedings could result in material adverse consequences, including judgments or settlements, negatively affecting our business, financial condition and results of operations.
We are, and in the future will become, involved in lawsuits, regulatory inquiries, and governmental and other legal proceedings arising out of the ordinary course of our business. Some of these proceedings may raise difficult and complicated factual and legal issues and can be subject to uncertainties and complexities. The timing of the final resolutions to lawsuits, regulatory inquiries and governmental and other legal proceedings is typically uncertain. Additionally, the possible outcomes of, or resolutions to, these proceedings could include adverse judgments or settlements, either of which could require substantial payments. Furthermore, defending against these proceedings may require a diversion of management's attention and resources. None of the legal proceedings in which we are currently involved, individually or collectively, are considered material.

Our financial performance could be adversely affected if our management information systems are seriously disrupted or we fail to properly maintain, improve, upgrade and expand those systems.
Our efforts to provide an omni-channel experience for our customers include investing in, maintaining and making ongoing improvements of our existing management information systems that support operations, such as sales, inventory replenishment, merchandise ordering, project design and execution, transportation, receipt processing and fulfillment. Our systems are subject to damage or interruption as a result of catastrophic events, power outages, viruses, malicious attacks and telecommunications failures, and as a result we may incur significant expense, data loss as well as an erosion of customer confidence. Additionally, we continually make investments in our systems

which may introduce disruption. Our financial performance could be adversely affected if our management information systems are seriously disrupted or we fail to properly maintain, improve, upgrade and expand those systems.

Liquidity and access to capital rely on efficient, rational and open capital markets and are dependent on Lowe's credit strength. Our inability to access capital markets could negatively affect our business, financial performance and results of operations.

We have relied on the public debt markets to fund portions of our capital investments and the commercial paper market and bank credit facilities to fund our working capital needs. Our access to these markets depends on our strong credit ratings, the overall condition of debt capital markets and our operating performance. Disruption in the financial markets or an erosion of our credit strength or declines on our credit rating could impact negatively our ability to meet capital requirements or fund working capital needs.

Our sales are dependent upon the health and stability of the general economy. Adverse changes in economic factors specific to the home improvement industry may negatively impact the rate of growth of our total sales and comparable sales.

Many U.S. and global economic factors may adversely affect our financial performance. These include, but are not limited to, periods of slow economic growth or recession, decreasing housing turnover or home price appreciation, volatility and/or lack of liquidity from time to time in U.S. and world financial markets and the consequent reduced availability and/or higher cost of borrowing to Lowe's and its customers, slower rates of growth in real disposable personal income that could affect the rate of growth in consumer spending, high rates of unemployment, consumer debt levels, outbreak of pandemics, fluctuations in fuel and energy costs, inflation or deflation of commodity prices, natural disasters and acts of both domestic and international terrorism. Sales of many of our product categories and services are driven by the activity level of home improvement projects. Adverse development in these factors could result in a decrease in home improvement activity which could reduce demand for our products and services.

In addition, although we are monitoring the effects of a widespread outbreak of a contagious respiratory illness caused by a novel coronavirus first identified in Wuhan, China (COVID-19), we cannot predict whether, for how long, or the extent to which the outbreak may disrupt our supply chain, operations, sales, and/or product shipments and home installations. A prolonged outbreak could negatively impact our vendors and customers, cause interruptions to our operations, including the reduction of store operating hours, temporary store closures and reduced store traffic, and adversely affect our results of operations. More generally, a widespread health crisis could adversely affect the U.S. economy, resulting in an economic downturn that could decrease consumer confidence and affect demand for our products and therefore impact our results, including our business and financial outlook for fiscal 2020. Any adverse impact on our results of operations, business or financial outlook could be material.

Item 1B - Unresolved Staff Comments

None.

Item 2 - Properties

At January 31, 2020, our properties consisted of 1,977 stores in the U.S. and Canada with a total of approximately 208 million square feet of selling space. Of the total stores operating at January 31, 2020, approximately 84% are owned, which includes stores on leased land, with the remainder being leased from third parties. We also operate regional distribution centers and other facilities to support distribution and fulfillment, as well as data centers and various support offices. Our executive offices are located in Mooresville, North Carolina.

Item 3 - Legal Proceedings

The Company is from time to time a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. With respect to such lawsuits, claims and proceedings, the Company records reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. The Company does not believe that any of these proceedings, individually or in the aggregate, would be expected to have a material adverse effect on its results of operations, financial position, or cash flows. The Company maintains liability insurance for certain risks that are subject to certain self-insurance limits.

As previously reported, in May 2019, the Company received a letter from the California South Coast Air Quality Management District (“SCAQMD”) regarding allegations that the Company sold denatured alcohol since 2015 in a manner that is not compliant with applicable rules. The Company has settled the matter with SCAQMD, and the outcome did not have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

Item 4 - Mine Safety Disclosures

Not applicable.

Table of Contents

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Set forth below is a list of names and ages of the executive officers of the registrant indicating all positions and offices with the registrant held by each such person and each person's principal occupations or employment during the past five years. Each executive officer of the registrant is elected by the board of directors. Each executive officer of the registrant holds office from the date of election until a successor is elected or until his or her death, resignation or removal.

Name	Age	Title
Marvin R. Ellison	55	President and Chief Executive Officer since July 2018; Chairman of the Board and Chief Executive Officer, J.C. Penney Company, Inc. (a department store retailer), 2016 - May 2018; Chief Executive Officer, J.C. Penney Company, Inc., 2015 - 2016; President, J.C. Penney Company, Inc., 2014 - 2015; Executive Vice President - U.S. Stores, The Home Depot, Inc. (a home improvement retailer) 2008 - 2014.
William P. Boltz	57	Executive Vice President, Merchandising since August 2018; President and CEO, Chervon North America (a global power tool supplier), 2015-2018; President and owner of The Boltz Group, LLC (a retail consulting firm), 2013 - 2015; Senior Vice President, Merchandising, The Home Depot, Inc. (a home improvement retailer), 2006 - 2012.
David M. Denton	54	Executive Vice President and Chief Financial Officer since November 2018; Executive Vice President and Chief Financial Officer, CVS Health Corporation (a pharmacy innovation company), 2010 – November 2018.
Donald E. Frieson	61	Executive Vice President, Supply Chain since August 2018; Executive Vice President, Operations, Sam's Club (a general merchandise retailer), 2014 - 2017; Senior Vice President, Replenishment, Planning and Real Estate, Sam's Club, 2012 - 2014.
Seemantini Godbole	50	Executive Vice President, Chief Information Officer since November 2018; Senior Vice President, Technology and Digital, Target Corporation (a department store retailer), January 2017 – November 2018; Vice President, Technology and Digital, Target Corporation, 2013 – December 2016.
Ross W. McCanless	62	Executive Vice President, General Counsel and Corporate Secretary since 2017; Chief Legal Officer, Secretary and Chief Compliance Officer, 2016 - 2017; General Counsel, Secretary and Chief Compliance Officer, 2015 - 2016; Chief Legal Officer, Extended Stay America, Inc. (a hotel operating company) and ESH Hospitality, Inc. (a hotel real estate investment company), 2013 - 2014.
Joseph M. McFarland III	50	Executive Vice President, Stores since August 2018; Executive Vice President and Chief Customer Officer, J.C. Penney Company, Inc. (a department store retailer), March 2018 – August 2018; Executive Vice President, Stores, J.C. Penney Company, Inc., 2016 – March 2018; Divisional President, The Home Depot, Inc. (a home improvement retailer), 2007 – 2015.
Marisa F. Thalberg	50	Executive Vice President, Chief Brand and Marketing Officer since February 2020; Global Chief Brand Officer, Taco Bell Corporation (a fast-food company), January 2018 - February 2020; Chief Marketing Officer, Taco Bell Corporation, January 2016 - January 2018; Chief Brand Engagement Officer, Taco Bell Corporation, May 2015 - January 2016; Vice President, Corporate Digital and Content Marketing Worldwide, The Estee Lauder Companies (a beauty products company), 2007 - May 2015.

Jennifer L. Weber	53	Executive Vice President, Chief Human Resources Officer since 2016; Executive Vice President, External Affairs and Strategic Policy, Duke Energy Corporation (an electric power company), 2014 – 2016. Executive Vice President and Chief Human Resources Officer, Duke Energy Corporation, 2011 - 2014.

Part II

Item 5 - Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Lowe's common stock is traded on the New York Stock Exchange (NYSE). The ticker symbol for Lowe's is "LOW". As of March 20, 2020, there were 22,129 holders of record of Lowe's common stock.

Total Return to Shareholders

The following information in Item 5 of this Annual Report is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

The following table and graph compare the total returns (assuming reinvestment of dividends) of the Company's common stock, the S&P 500 Index (S&P 500) and the S&P Retailing Industry Group Index (S&P Retail Index). The graph assumes $100 invested on January 30, 2015 in the Company's common stock and each of the indices.

totalreturnsgraph2019.jpg

	1/30/2015	1/29/2016	2/3/2017	2/2/2018	2/1/2019	1/31/2020
Lowe's	$ 100.00	$ 107.38	$ 111.78	$ 157.69	$ 153.89	$ 187.74
S&P 500	100.00	99.33	120.26	147.48	147.40	179.17
S&P Retail Index	$ 100.00	$ 115.56	$ 134.42	$ 189.60	$ 203.54	$ 243.26

Table of Contents

Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of the Company's common stock made during the fourth quarter of fiscal 2019:

	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
November 2, 2019 – November 29, 2019	1,639,183	$ 115.11	1,639,183	$ 10,138,558,200
November 30, 2019 – January 3, 2020	2,545,679	118.34	2,545,047	9,837,384,381
January 4, 2020 – January 31, 2020	1,493,160	120.62	1,492,237	9,657,384,423
As of January 31, 2020	**5,678,022**	**$ 118.01**	**5,676,467**	**$ 9,657,384,423**

[1] *The total number of shares purchased includes shares withheld from employees to satisfy either the exercise price of stock options or the statutory withholding tax liability upon the vesting of share-based awards.*

[2] *On December 12, 2018, the Company announced that its Board of Directors authorized an additional $10.0 billion of share repurchases, in addition to the $5.0 billion of share repurchases authorized by the Board of Directors in January 2018, with no expiration.*

Item 6 - Selected Financial Data

Selected Statement of Earnings Data (In millions, except per share data)	**2019**	**2018[1]**	**2017**	**2016[2, 3]**	**2015**
Net sales	$ 72,148	$ 71,309	$ 68,619	$ 65,017	$ 59,074
Gross margin	22,943	22,908	22,434	21,674	19,933
Operating income	6,314	4,018	6,586	5,846	4,971
Net earnings	4,281	2,314	3,447	3,093	2,546
Basic earnings per common share	5.49	2.84	4.09	3.48	2.73
Diluted earnings per common share	5.49	2.84	4.09	3.47	2.73
Dividends per share	$ 2.13	$ 1.85	$ 1.58	$ 1.33	$ 1.07
Selected Balance Sheet Data					
Total assets[4]	$ 39,471	$ 34,508	$ 35,291	$ 34,408	$ 31,266
Long-term debt, excluding current maturities	$ 16,768	$ 14,391	$ 15,564	$ 14,394	$ 11,545

[1] *Effective February 3, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and all related amendments, using the modified retrospective method. Therefore, results for reporting periods beginning after February 2, 2018 are presented under ASU 2014-09, while comparative prior period amounts have not been restated and continue to be presented under accounting standards in effect in those periods.*

[2] *Fiscal 2016 contained 53 weeks, while all other years contained 52 weeks.*

[3] *Fiscal 2016 includes the acquisition of RONA inc.*

[4] *Effective February 2, 2019, the Company adopted ASU 2016-02, Leases (Topic 842), and all related amendments, using the optional transition approach to not restate comparative periods and recognized the cumulative impact of adoption in the opening balance of retained earnings. Therefore, results for reporting periods beginning after February 1, 2019 are presented under ASU 2016-02, while comparative prior period amounts have not been restated and continue to be presented under accounting standards in effect in those periods.*

Table of Contents

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the three-year period ended January 31, 2020 (our fiscal years 2019, 2018 and 2017). Unless otherwise noted, all references herein for the years 2019, 2018 and 2017 represent the fiscal years ended January 31, 2020, February 1, 2019 and February 2, 2018, respectively. We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. This discussion should be read in conjunction with our consolidated financial statements and notes to the consolidated financial statements included in this Annual Report that have been prepared in accordance with accounting principles generally accepted in the United States of America. This discussion and analysis is presented in six sections:

- Executive Overview
- Operations
- Financial Condition, Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Contractual Obligations and Commercial Commitments
- Critical Accounting Policies and Estimates

EXECUTIVE OVERVIEW

Net sales for fiscal 2019 increased 1.2% over fiscal year 2018 to $72.1 billion. The increase in total sales was driven by an increase in comparable sales, offset by a decrease in sales due to closed stores and the exit of the Mexico and Orchard Supply Hardware (Orchard) businesses. Comparable sales increased 2.6% over fiscal year 2018, driven by a comparable average ticket increase of 2.1% and an increase in comparable transactions of 0.5%. Net earnings for fiscal 2019 increased 85.0% to $4.3 billion. Diluted earnings per common share increased 93.1% in fiscal year 2019 to $5.49 from $2.84 in 2018. As further discussed below, during fiscal year 2019, we completed a strategic review of the Canadian operations and finalized the closure of the Mexico business, resulting in net pre-tax operating costs and charges of $265 million, which decreased diluted earnings per share by $0.25. Adjusting 2019 and 2018 amounts for certain significant discrete items not contemplated in the business outlooks for those respective years, adjusted diluted earnings per common share increased 12.3% in fiscal year 2019 to $5.74 from $5.11 in 2018 (see the non-GAAP financial measures discussion).

For 2019, cash flows from operating activities were approximately $4.3 billion, with $1.5 billion used for capital expenditures. Continuing to deliver on our commitment to return excess cash to shareholders, the Company repurchased 41.0 million shares of stock through the share repurchase program for $4.3 billion and paid $1.6 billion in dividends during the year.

During the prior year, we announced our intention to exit our Mexico retail operations and our plan to sell the operating business. However, during the first quarter of 2019, after an extensive market evaluation, the decision was made to instead sell the assets of the business. This resulted in an $82 million tax benefit in the first quarter. This benefit was partially offset by $35 million of pretax operating costs during the year associated with the exit and ongoing wind-down of the business.

In the third quarter of 2019, we commenced a strategic review of the Canadian operations to improve execution and deliver long-term improved profitability in Canada. As a result, during the fourth quarter, we completed the closure of 28 under-performing stores with the remaining six planned closures to be completed in early fiscal 2020. In addition, Canadian operations started a SKU rationalization project to present a more coordinated assortment of product to the customer across banners and began the reorganization of the corporate structure to more efficiently serve stores. Total pretax operating costs and charges associated with the strategic review of the Canadian operations were $230 million for fiscal year 2019.

During the year, we made significant progress transforming our Company through our four key focus areas: driving merchandising excellence; transforming our supply chain; delivering operational efficiency; and intensifying customer engagement. Our Merchandise Service Teams (MST) have improved our merchandising reset execution and day-to-day bay and end-cap maintenance at the store level to deliver a better shopping experience to our customers. We made improvements to our store environment, optimizing our layout on the critically important seasonal pad at the front of our stores. We also opened two new bulk distribution centers, relocated a third bulk distribution center, and opened four new cross-dock delivery terminals. In 2019, we focused on improving our customer service and investing in our in-stock position, driving efficiency in our store operations and advancing our Pro service model. We rolled out a customer centric scheduling system that allows us to provide better department coverage and customer service, while ensuring that we are using our payroll efficiently. We have also added scheduling effectiveness tools that measure schedule efficiency and deployed new mobile devices to our store associates with applications to help make our associates more efficient and ultimately allowed them to spend more time interacting with customers. In 2019, our Pro strategy was primarily focused on improving retail fundamentals such as job lot quantities, improved service levels, dedicated loaders, Pro department supervisors and consistent volume pricing. In addition, during the fourth quarter, we added dedicated point of sale terminals at our Pro desk to allow for more convenient, faster service.

In 2019, we made significant progress in transforming our company. Although we are only one year into a multi-year transformation, we believe that we are on the right path to capitalize on demand in the home improvement market, and our planned improvements to the Lowes.com platform will allow these four strategic areas of focus to create a true omni-channel ecosystem for Lowe’s so we can efficiently serve our customers any way they choose to shop.

Table of Contents

OPERATIONS

The following tables set forth the percentage relationship to net sales of each line item of the consolidated statements of earnings, as well as the percentage change in dollar amounts from the prior year. This table should be read in conjunction with the following discussion and analysis and the consolidated financial statements, including the related notes to the consolidated financial statements.

			Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year	Percentage Increase / (Decrease) in Dollar Amounts from Prior Year
	2019	**2018**	**2019 vs. 2018**	**2019 vs. 2018**
Net sales	**100.00%**	**100.00%**	**N/A**	**1.2 %**
Gross margin	**31.80**	**32.12**	**(32)**	**0.2**
Expenses:				
Selling, general and administrative	21.30	24.41	(311)	(11.7)
Depreciation and amortization	1.75	2.07	(32)	(14.5)
Operating income	**8.75**	**5.64**	**311**	**57.1**
Interest - net	0.96	0.88	8	10.6
Pre-tax earnings	**7.79**	**4.76**	**303**	**65.7**
Income tax provision	1.86	1.52	34	24.3
Net earnings	**5.93%**	**3.24%**	**269**	**85.0 %**

			Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year	Percentage Increase / (Decrease) in Dollar Amounts from Prior Year
	2018	**2017**	**2018 vs. 2017**	**2018 vs. 2017**
Net sales	**100.00%**	**100.00%**	**N/A**	**3.9 %**
Gross margin	**32.12**	**32.69**	**(57)**	**2.1**
Expenses:				
Selling, general and administrative	24.41	21.04	337	20.6
Depreciation and amortization	2.07	2.05	2	5.2
Operating income	**5.64**	**9.60**	**(396)**	**(39.0)**
Interest - net	0.88	0.92	(4)	(1.3)
Loss on extinguishment of debt	—	0.68	(68)	**(100.0)**
Pre-tax earnings	**4.76**	**8.00**	**(324)**	**(38.2)**
Income tax provision	1.52	2.98	(146)	(47.1)
Net earnings	**3.24%**	**5.02%**	**(178)**	**(32.9 %)**

Other Metrics	2019	2018	2017
Comparable sales increase [1]	2.6 %	2.4 %	4.0 %
Total customer transactions (in millions)	921	941	953
Average ticket [2]	$ 78.36	$ 75.79	$ 72.00
At end of year:			
Number of stores	1,977	2,015	2,152
Sales floor square feet (in millions)	208	209	215
Average store size selling square feet (in thousands) [3]	105	104	100
Return on average assets [4]	10.8 %	6.4 %	9.5 %
Return on average shareholders' equity [5]	153.4 %	43.8 %	59.2 %
Net earnings to average debt and equity [6]	17.2 %	9.0 %	13.0 %
Return on invested capital [6]	19.9 %	11.2 %	16.0 %

1 *A comparable location is defined as a retail location that has been open longer than 13 months. A location that is identified for relocation is no longer considered comparable in the month of its relocation. The relocated location must then remain open longer than 13 months to be considered comparable. A location we have decided to exit is no longer considered comparable as of the beginning of the month in which we announce its exit. Acquired locations are included in the comparable sales calculation beginning in the first full month following the first anniversary of the date of the acquisition. Comparable sales include online sales, which positively impacted fiscal 2019, fiscal 2018 and fiscal 2017 by approximately 25 basis points, 80 basis points and 120 basis points, respectively.*

2 *Average ticket is defined as net sales divided by the total number of customer transactions.*

3 *Average store size selling square feet is defined as sales floor square feet divided by the number of stores open at the end of the period. The average Lowe's-branded home improvement store has approximately 112,000 square feet of retail selling space.*

4 *Return on average assets is defined as net earnings divided by average total assets for the last five quarters.*

5 *Return on average shareholders' equity is defined as net earnings divided by average shareholders' equity for the last five quarters.*

6 *Return on invested capital is calculated using a non-GAAP financial measure. Net earnings to average debt and equity is the most comparable GAAP ratio. See below for additional information and reconciliations of non-GAAP measures.*

Table of Contents

Non-GAAP Financial Measures

Return on Invested Capital

Return on Invested Capital (ROIC) is calculated using a non-GAAP financial measure. We believe ROIC is a meaningful metric for investors because it represents management's measure of how effectively the Company is using capital to generate profits. Although ROIC is a common financial metric, numerous methods exist for calculating ROIC. Accordingly, the method used by our management may differ from the methods used by other companies. We encourage you to understand the methods used by another company to calculate its ROIC before comparing to ours.

We define ROIC as rolling 12 months' lease adjusted net operating profit after tax (Lease adjusted NOPAT) divided by the average of current year and prior year ending debt and equity. Lease adjusted NOPAT is a non-GAAP financial measure, and net earnings is considered to be the most comparable GAAP financial measure. The calculation of ROIC, together with a reconciliation of net earnings to Lease adjusted NOPAT, is as follows:

(In millions, except percentage data)	2019	2018	2017
Calculation of Return on Invested Capital			
Numerator			
Net earnings	$ 4,281	$ 2,314	$ 3,447
Plus:			
Interest expense - net	691	624	633
Operating lease interest	195	206	209
Loss on extinguishment of debt	—	—	464
Provision for income taxes	1,342	1,080	2,042
Lease adjusted net operating profit	6,509	4,224	6,795
Less:			
Income tax adjustment [1]	1,554	1,344	2,528
Lease adjusted net operating profit after tax	$ 4,955	$ 2,880	$ 4,267
Denominator			
Average debt and equity [2]	$ 24,950	$ 25,713	$ 26,610
Net earnings to average debt and equity	**17.2 %**	**9.0 %**	**13.0 %**
Return on invested capital	**19.9 %**	**11.2 %**	**16.0 %**

1 *Income tax adjustment is defined as net operating profit multiplied by the effective tax rate, which was 23.9%, 31.8%, and 37.2% for 2019, 2018, and 2017, respectively.*

2 *Average debt and equity is defined as average current year and prior year ending debt, including current maturities, short-term borrowings, and operating lease liabilities, plus the average current year and prior year ending total equity.*

Adjusted Diluted Earnings Per Share

Adjusted diluted earnings per share is considered a non-GAAP financial measure. The Company believes this non-GAAP financial measure provides useful insight for analysts and investors in evaluating what management considers the Company's core financial performance. Adjusted diluted earnings per share excludes the impact of certain discrete items not contemplated in the Company's business outlooks for 2019 and 2018. Unless otherwise noted, the income tax effect of these adjustments is calculated using the marginal rates for the respective periods.

Adjusted diluted earnings per share should not be considered an alternative to, or more meaningful indicator of, the Company's diluted earnings per common share as prepared in accordance with GAAP. The Company's methods of determining this non-GAAP financial measure may differ from the method used by other companies for this or similar non-GAAP financial measures. Accordingly, these non-GAAP measures may not be comparable to the measures used by other companies.

Fiscal 2019 Impacts

For fiscal 2019, the Company has recognized financial impacts from the following discrete items, not contemplated in the Company’s Business Outlook for 2019:

- Prior to the beginning of fiscal 2019, the Company announced its intention to exit its Mexico retail operations and had planned to sell the operating business. However, in the first quarter of fiscal 2019, after an extensive market evaluation, the decision was made to instead sell the assets of the business. That decision resulted in an $82 million tax benefit in the first quarter, which was partially offset by $12 million of pre-tax operating costs associated with the exit and ongoing wind-down of the Mexico retail operations. During the second quarter of fiscal 2019, the Company recognized additional pre-tax operating losses of $14 million. For the third quarter, the pre-tax operating losses for the Mexico retail operations were insignificant. For the fourth quarter, the Company recognized additional pre-tax operating losses of $9 million. Total pre-tax operating costs and charges for fiscal year 2019 were $35 million (Mexico adjustments), and;

- During the third quarter of fiscal 2019, the Company began a strategic review of its Canadian operations, and as a result, recognized pre-tax charges of $53 million associated with long-lived asset impairment. During the fourth quarter, the Company made the decision to close 34 under-performing stores and take additional actions to improve future performance and profitability of its Canadian operations. As a result of these actions, in the fourth quarter of fiscal 2019, the Company recognized pre-tax operating costs and charges of $176 million, consisting of inventory liquidation, accelerated depreciation and amortization, severance, and other costs, as well as a net $26 million impact to income tax expense related to income tax valuation allowance. Total pre-tax operating costs and charges for fiscal year 2019 were $230 million (2019 Canada restructuring).

Fiscal 2018 Impacts
During fiscal 2018, the Company recognized financial impacts from the following discrete items, not contemplated in the Company's Business Outlook for 2018:

- During the fourth quarter of fiscal 2018, the Company recorded $952 million of goodwill impairment associated with its Canadian operations (Canadian goodwill impairment);

- On August 17, 2018, the Company committed to exit its Orchard Supply Hardware operations. As a result, the Company recognized pre-tax charges of $230 million during the second quarter of fiscal 2018 associated with long lived asset impairment and discontinued projects. During the third quarter of fiscal 2018, the Company recognized pre-tax charges of $123 million associated with accelerated depreciation and amortization, severance and lease obligations. During the fourth quarter of fiscal 2018, the Company recognized additional pre-tax charges of $208 million primarily related to lease obligations. Total pre-tax charges for fiscal year 2018 were $561 million (Orchard Supply Hardware charges);

- On October 31, 2018, the Company committed to close 20 under-performing stores across the U.S. and 31 locations in Canada, including 27 under-performing stores. As a result, the Company recognized pre-tax charges of $121 million during the third quarter of fiscal 2018 associated with long-lived asset impairment and severance obligations. During the fourth quarter of fiscal 2018, the company recognized additional pre-tax charges of $150 million, primarily associated with severance and lease obligation costs, as well as accelerated depreciation. Total pre-tax charges for fiscal year 2018 were $271 million (U.S. and Canada closing charges);

- As previously discussed above, on November 20, 2018, the Company announced its plans to exit retail operations in Mexico and was exploring strategic alternatives. During the third quarter, $22 million of long-lived asset impairment was recognized on certain assets in Mexico as a result of the strategic evaluation. During the fourth quarter, an additional $222 million of impairment was recognized. Total pre-tax charges for fiscal year 2018 were $244 million (Mexico impairment charges);

- During the third quarter of fiscal 2018, the Company identified certain non-core activities within its U.S. home improvement business to exit, including Alacrity Renovation Services and Iris Smart Home. As a result, during the third quarter of 2018, the Company recognized pre-tax charges of $14 million associated with long-lived asset impairment and inventory write-down. During the fourth quarter of fiscal 2018, the Company recognized additional pre-tax charges of $32 million. Total pre-tax charges for fiscal year 2018 were $46 million (Non-core activities charges), and;

- During the fourth quarter of fiscal 2018, the Company recorded a pre-tax charge of $13 million, associated with severance costs due to the elimination of the Project Specialists Interiors position (Project Specialists Interiors charge).

	2019			2018		
	Pre-Tax Earnings	Tax	Net Earnings	Pre-Tax Earnings	Tax	Net Earnings
Diluted earnings per share, as reported			$ 5.49			$ 2.84
Non-GAAP Adjustments - per share impacts						
2019 Canada restructuring	0.29	0.02	0.31	—	—	—
Mexico adjustments	0.05	(0.11)	(0.06)	—	—	—
Canadian goodwill impairment	—	—	—	1.17	(0.03)	1.14
Orchard Supply Hardware charges	—	—	—	0.68	(0.17)	0.51
U.S. & Canada charges	—	—	—	0.33	(0.08)	0.25
Mexico impairment charges	—	—	—	0.30	0.01	0.31
Non-core activities charges	—	—	—	0.06	(0.02)	0.04
Project Specialists Interiors charge	—	—	—	0.02	—	0.02
Adjusted diluted earnings per share			$ 5.74			$ 5.11

Fiscal 2019 Compared to Fiscal 2018

Net Sales – Net sales increased 1.2% to $72.1 billion in 2019. The increase in total sales was driven primarily by 2.6% comparable sales growth and new stores (+0.2%), offset by the impact from closed stores and exit of the Mexico & Orchard operations (-1.6%). The comparable sales increase of 2.6% in 2019 was driven primarily by a 2.1% increase in comparable average ticket and a 0.5% increase in comparable customer transactions. Comparable sales increases during each quarter of the fiscal year, as reported, were 3.5% in the first quarter, 2.3% in the second quarter, 2.2% in the third quarter, and 2.5% in the fourth quarter.

During 2019, we experienced comparable sales increases in ten of 13 product categories. We experienced mid single-digit negative comparable sales in Lighting and Kitchens & Bath, primarily due to the exit of the Project Specialist Interiors (PSI) business in 2018. Lighting also experienced decreased volume of sales due to price increases to offset tariff pressure. Comparable sales increases were above the company average in Lawn & Garden, Décor, Tools, Paint, Appliances, Millwork, Seasonal & Outdoor Living, Hardware, Rough Plumbing & Electrical, and Lumber & Building Materials. Favorable weather driven demand was a key comparable sales driver for Lawn & Garden, Seasonal & Outdoor Living, Hardware, and Paint. Décor comparable sales were driven by strong performance in Blinds & Shades, promotional activity, and improved inventory position. Strong refrigerator and laundry performance during major holiday promotion events in Appliances drove strong comparable sales during the year. Tools benefited from the CRAFTSMAN® reset in the prior year, as well as strong performance during promotional events during the year. Geographically, all 15 U.S. regions experienced positive comparable sales with the strongest results in the West and South.

During the fourth quarter of 2019, we experienced comparable sales increases in nine of 13 product categories. Comparable sales increases were above the company average in Décor, Lawn & Garden, Paint, Millwork, Lumber & Building Materials, Tools, Hardware, and Appliances. Strength in Décor was driven primarily by the Winter Reorganization promotional event, particularly in-home organization products. Unseasonably warm weather drove strong comparable sales in Lawn & Garden, Paint, and Lumber & Building Materials. We experienced low single-digit negative comparable sales in Seasonal & Outdoor Living, Kitchens & Bath, and Lighting due primarily to the exit of the PSI business in the prior year. Seasonal & Outdoor Living experienced softness in Seasonal and Outdoor Heat due to warmer than expected weather. Geographically, 14 of 15 U.S. regions experienced increases in fourth quarter comparable sales.

Gross Margin – Gross margin as a percentage of sales for 2019 decreased 32 basis points compared to 2018. Gross margin was negatively impacted by approximately 35 basis points due to tariff pressure, 20 basis points from supply chain costs associated with new facilities, transportation and customer deliveries, and 10 basis points associated with increased inventory shrink. This was partially offset by a gross margin increase of approximately 40 basis points due to our prior year inventory rationalization efforts to eliminate less productive SKUs and reduce clutter in our stores.

During the fourth quarter of 2019, gross margin decreased 22 basis points as a percentage of sales. Gross margin was negatively impacted by approximately 80 basis points from the impact of store closures and inventory liquidation associated with the Canadian restructuring, 25 basis points from supply chain costs associated with new facilities, transportation and customer deliveries, and 25 basis points associated with increased inventory shrink. This was partially offset by 105 basis points due to the use of rate mitigation strategies.

SG&A – SG&A expense for 2019 leveraged 311 basis points as a percentage of sales compared to 2018. This was primarily driven by 265 basis points of leverage due to prior year goodwill and long-lived asset impairments and discontinued projects associated with the Company's prior year strategic reassessment of Orchard, USHI, Canada, and Mexico locations. There was an additional 45 basis points of leverage in salaries expenses, and 15 basis points of leverage in advertising due to improved advertising efficiency. These were partially offset by 10 basis points of deleverage associated with current year long-lived asset impairment, severance and other costs associated with the Company's strategic review of the Canadian operations.

For the fourth quarter of 2019, SG&A expense leveraged 959 basis points as a percentage of sales compared to the fourth quarter of 2018. This was primarily driven by 960 basis points of leverage due to prior year goodwill and long-lived asset impairments and discontinued projects associated with the Company's prior year strategic reassessment of Orchard, USHI, Canada, and Mexico locations, as well as 20 basis points of leverage in salaries expenses. These were partially offset by 20 basis points of deleverage associated with the current year long-lived asset impairment, severance and other costs associated with the Company's strategic review of the Canadian operations.

Depreciation and Amortization – Depreciation and amortization expense leveraged 32 basis points for 2019 as a percentage of sales compared to 2018, primarily due to store closures in the prior year and assets becoming fully depreciated. Property, less accumulated depreciation, increased to $18.7 billion at January 31, 2020, compared to $18.4 billion at February 1, 2019. As of January 31, 2020 and February 1, 2019, we owned 84% and 83% of our stores, respectively, which included stores on leased land.

Interest – Net – Net interest expense is comprised of the following:

(In millions)	2019	2018
Interest expense, net of amount capitalized	$ 706	$ 642
Amortization of original issue discount and loan costs	12	10
Interest income	(27)	(28)
Interest - net	**$ 691**	**$ 624**

Net interest expense in 2019 deleveraged 8 basis points primarily as a result of interest expense related to the issuance of $3.0 billion unsecured notes in April 2019 and a $1.0 billion term loan issued in January 2020, partially offset by a decrease in expense associated with the adoption of ASU 2016-02, *Leases (Topic 842)*, in the first quarter of 2019.

Income Tax Provision - Our effective income tax rate was 23.9% in 2019 compared to 31.8% in 2018. For 2019, the rate was favorably impacted by the tax benefit associated with the Company's decision to sell the assets of the Mexico business, which was offset by a valuation allowance established for the Company's RONA operations. For 2018, the favorable impact of tax reform was offset by the majority of the Canadian goodwill impairment not being deductible for tax purposes, as well as negative tax impacts associated with the initial decision to exit Mexico.

Our effective income tax rate for the fourth quarter of 2019 was negatively impacted by the valuation allowances established for the Company's RONA operations. The fourth quarter of 2018 was negatively impacted by the non-deductibility of a majority of the goodwill impairment charge related to our Canadian business, as well as the negative tax consequences of exiting our retail operations in Mexico.

Fiscal 2018 Compared to Fiscal 2017

For a comparison of our results of operations for the fiscal years ended February 1, 2019 and February 2, 2018, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended February 1, 2019, filed with the SEC on April 2, 2019.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Cash flows from operations, supplemented with our short-term and long-term borrowings, have been sufficient to fund our operations while allowing us to make strategic investments that will grow our business, and to return excess cash to shareholders in the form of dividends and share repurchases. We believe that our sources of liquidity will continue to be adequate to fund our operations and investments to grow our business, repay our debt as it becomes due, pay dividends, and fund our share repurchases over the next 12 months.

Cash Flows Provided by Operating Activities

(In millions)	2019	2018	2017
Net cash provided by operating activities	$ 4,296	$ 6,193	$ 5,065

Cash flows from operating activities continued to provide the primary source of our liquidity. The decrease in net cash provided by operating activities for the year ended January 31, 2020, versus the year ended February 1, 2019, was due primarily to changes in working capital, driven by accounts payable and inventory, which decreased operating cash flow for fiscal 2019 by approximately $1.2 billion, compared to an increase of approximately $430 million for fiscal 2018. In fiscal year 2019, inventory increased at the same time that accounts payable decreased. The increase in inventory was driven by strategic investments in the first half of fiscal 2019, including earlier seasonal purchases, resets, and increased job lot quantities, to increase sales. The decrease in accounts payable is due to timing of payments, partially related to the inventory build in late fiscal 2018. In fiscal 2018, the increase in accounts payable exceeded the increase in inventory driven by inventory rationalization efforts during the second half of fiscal 2018, and an acceleration of spring purchases in the fourth quarter of fiscal 2018.

The increase in net cash provided by operating activities for the year ended February 1, 2019, versus the year ended February 2, 2018, was due primarily to changes in working capital, driven by accounts payable and inventory, which increased operating cash flow for 2018 by approximately $430 million, compared to a decrease of approximately $883 million for 2017. In fiscal 2018, the increase in accounts payable exceeded the increase in inventory driven by inventory rationalization efforts during the second half of fiscal 2018, and an acceleration of spring purchases in the fourth quarter of fiscal 2018.

Cash Flows Used in Investing Activities

(In millions)	2019	2018	2017
Net cash used in investing activities	$ (1,369)	$ (1,080)	$ (1,441)

Net cash used in investing activities primarily consist of transactions related to capital expenditures and business acquisitions.

Capital expenditures

Our capital expenditures generally consist of investments in our strategic initiatives to enhance our ability to serve customers, existing stores, and expansion plans. Capital expenditures were $1.5 billion in 2019, $1.2 billion in 2018, and $1.1 billion in 2017. The following table provides the allocation of capital expenditures for 2019, 2018, and 2017:

	2019	2018	2017
Existing store investments [1]	80 %	60 %	50 %
Strategic initiatives [2]	10 %	20 %	10 %
New stores, new corporate facilities and international [3]	10 %	20 %	40 %
Total capital expenditures	**100 %**	**100 %**	**100 %**

[1] *Includes merchandising resets, facility repairs, replacements of IT and store equipment, among other specific efforts.*

[2] *Represents investments related to our strategic focus areas aimed at improving customers' experience and driving improved performance.*

[3] *Represents expenditures primarily related to land purchases, buildings, and personal property for new store projects and new corporate facilities projects, as well as expenditures related to our international operations.*

Our 2020 capital expenditures forecast is approximately $1.6 billion. The following table provides the allocation of our fiscal 2020 capital expenditures forecast:

	2020
Existing store investments	70 %
Strategic initiatives	15 %
New stores, new corporate facilities and international	15 %

Cash Flows Used in Financing Activities

(In millions)	2019	2018	2017
Net cash used in financing activities	$ (2,735)	$ (5,124)	$ (3,607)

Net cash used in financing activities primarily consist of transactions related to our commercial paper, debt, share repurchases, and cash dividend payments.

Short-term Borrowing Facilities

(In millions)	2019	2018	2017
Net proceeds from issuance of short-term debt	$ 1,000	$ —	$ —
Net change in commercial paper	$ 220	$ (415)	$ 625

In January 2020, the Company entered into a $1 billion unsecured 364-day term loan facility (the “Term Loan”). The Company must repay the aggregate principal amount of loans outstanding under the Term Loan on the maturity date in effect at such time (currently December 31, 2020). Outstanding borrowings under the Term Loan were $1.0 billion, with a weighted average interest rate of 2.29%, as of January 31, 2020.

In addition, we have a $1.98 billion five year unsecured revolving second amended and restated credit agreement (the Second Amended and Restated Credit Agreement) with a syndicate of banks. The Second Amended and Restated Credit Agreement, which amended and restated the Company’s amended and restated credit agreement, dated November 23, 2016, has a maturity date of September 2023. Subject to obtaining commitments from the lenders and satisfying other conditions specified in the Second Amended and Restated Credit Agreement, the Company may increase the aggregate availability by an additional $270 million.

In September 2019, the Company entered into a $250 million unsecured 364-day credit agreement (the 2019 Credit Agreement) with a syndicate of banks. The Company must repay the aggregate principal amount of loans outstanding under the 2019 Credit Agreement on the termination date in effect at such time (currently September 8, 2020). The Company may elect to convert all of the loans outstanding under the 2019 Credit Agreement on the termination date into a term loan which the Company shall repay in full on the first anniversary date of the termination date.

In September 2018, the Company entered into a $250 million unsecured 364-day credit agreement (the 2018 Credit Agreement) with a syndicate of banks.

The Second Amended and Restated Credit Agreement and the 2019 and 2018 Credit Agreements (collectively, the Credit Agreements) support our commercial paper program. The amount available to be drawn under the Second Amended and Restated Credit Agreement and the Credit Agreements is reduced by the amount of borrowings under our commercial paper program. Outstanding borrowings under the Company’s commercial paper program were $941 million, with a weighted average interest rate of 2.10% as of January 31, 2020, and $722 million, with a weighted average interest rate of 2.81% as of February 1, 2019. There was $1.0 billion in outstanding borrowings under the Term Loan and no borrowings outstanding under the Second Amended and Restated Credit Agreement or the 2019 Credit Agreement as of January 31, 2020. There were no outstanding borrowings under the Second Amended and Restated Credit Agreement or the 2018 Credit Agreement as of February 1, 2019. Our commercial paper program, along with cash flows generated from operations, is typically utilized during our fourth fiscal quarter to build inventory in anticipation of the spring selling season. The following table includes additional information related to our borrowings under our commercial paper program for 2019, 2018, and 2017:

(In millions, except for interest rate data)	2019	2018	2017
Net change in commercial paper	$ 220	$ (415)	$ 625
Amount outstanding at year-end	$ 941	$ 722	$ 1,137
Maximum amount outstanding at any month-end	$ 1,364	$ 892	$ 1,137
Weighted-average interest rate of commercial paper outstanding	2.10%	2.81%	1.85%

The Term Loan, The Second Amended and Restated Credit Agreement, and the Credit Agreements contain customary representations, warranties, and covenants. We were in compliance with those covenants at January 31, 2020. See Note 9 to the consolidated financial statements included herein for additional information regarding our short-term borrowings.

Long-term Debt

The following table includes additional information related to the Company's long-term debt for 2019, 2018, and 2017:

(In millions)	2019	2018	2017
Net proceeds from issuance of long-term debt	$ 2,972	$ —	$ 2,968
Repayment of long-term debt	$ (1,113)	$ (326)	$ (2,849)

In 2019, we issued $3.0 billion of unsecured notes to finance 2019 maturities and for other general corporate purposes, which included share repurchases, capital expenditures, strategic investments, and working capital needs. In 2019, we paid approximately $1.1 billion to retire scheduled debts at maturity.

In 2018, we paid approximately $250 million to retire scheduled debts at maturity.

Our ratio of debt to capital (equity plus debt) was 90.7% and 81.7% as of January 31, 2020, and February 1, 2019, respectively.

See Note 10 to the consolidated financial statements included herein for additional information regarding our long-term debt.

Share Repurchases

We have an ongoing share repurchase program, authorized by the Company's Board of Directors, that is executed through purchases made from time to time either in the open market or through private off-market transactions. We also withhold shares from employees to satisfy tax withholding liabilities. Shares repurchased are retired and returned to authorized and unissued status. The following table provides, on a settlement date basis, the total number of shares repurchased, average price paid per share, and the total amount paid for share repurchases for 2019, 2018, and 2017:

(In millions, except per share data)	2019	2018	2017
Total amount paid for share repurchases	$ 4,313	$ 3,037	$ 3,192
Total number of shares repurchased	41.2	31.6	39.9
Average price paid per share	$ 104.68	$ 96.18	$ 80.01

As of January 31, 2020, we had $9.7 billion remaining under our share repurchase program with no expiration date. We expect to repurchase shares totaling approximately $5.0 billion in 2020. See Note 11 to the consolidated financial statements included herein for additional information regarding share repurchases.

Dividends

In 2019, we increased our quarterly dividend payment 15% to $0.55 per share. Our dividend payment dates are established such that dividends are paid in the quarter immediately following the quarter in which they are declared. The following table provides additional information related to our dividend payments for 2019, 2018, and 2017:

(In millions, except per share data and percentage data)	2019	2018	2017
Total cash dividend payments	$ 1,618	$ 1,455	$ 1,288
Dividends paid per share	$ 2.06	$ 1.78	$ 1.52
Dividend payout ratio	38 %	63 %	37 %

Capital Resources

We expect to continue to have access to the capital markets on both short-term and long-term bases when needed for liquidity purposes by issuing commercial paper or new long-term debt. The availability and the borrowing costs of these funds could be adversely affected, however, by a downgrade of our debt ratings or a deterioration of certain financial ratios. The table below reflects our debt ratings by Standard & Poor's (S&P) and Moody's as of March 23, 2020, which we are disclosing to enhance understanding of our sources of liquidity and the effect of our ratings on our cost of funds. Our debt ratings have enabled, and should continue to enable, us to refinance our debt as it becomes due at favorable rates in capital markets. Our commercial paper and senior debt ratings may be subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating.

Debt Ratings	**S&P**	**Moody's**
Commercial Paper	A-2	P-2
Senior Debt	BBB+	Baa1
Outlook	**Stable**	**Stable**

There are no provisions in any agreements that would require early cash settlement of existing debt or leases as a result of a downgrade in our debt rating or a decrease in our stock price. In addition, we do not believe it will be necessary to repatriate significant cash and cash equivalents and short-term investments held in foreign affiliates to fund domestic operations.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet financing that has, or is reasonably likely to have, a current or future material effect on our financial condition, cash flows, results of operations, liquidity, capital expenditures or capital resources.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes our significant contractual obligations at January 31, 2020:

	Payments Due by Period				
Contractual Obligations (in millions)	**Total**	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Long-term debt (principal amounts, excluding discount and debt issuance costs)	$ 16,812	$ 500	$ 1,790	$ 951	$ 13,571
Long-term debt (interest payments)	10,673	667	1,250	1,163	7,593
Finance lease obligations [1, 2]	864	104	212	196	352
Operating leases [1]	5,662	624	1,345	1,087	2,606
Purchase obligations [3]	1,174	723	440	11	—
Total contractual obligations	**$ 35,185**	**$ 2,618**	**$ 5,037**	**$ 3,408**	**$ 24,122**

	Amount of Commitment Expiration by Period				
Commercial Commitments (in millions)	**Total**	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Letters of Credit [4]	$ 61	$ 60	$ 1	$ —	$ —

1 *Amounts do not include taxes, common area maintenance, insurance, or contingent rent because these amounts have historically been insignificant.*

2 *Amounts include imputed interest.*

3

Purchase obligations include agreements to purchase goods or services that are enforceable, are legally binding, and specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase obligations include firm commitments related to certain marketing and information technology programs, as well as purchases of merchandise inventory.

[4] *Letters of credit are issued primarily for insurance and construction contracts.*

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated financial statements and notes to consolidated financial statements presented in this Annual Report requires us to make estimates that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosures of contingent assets and liabilities. We base these estimates on historical results and various other assumptions believed to be reasonable, all of which form the basis for making estimates concerning the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Our significant accounting policies are described in Note 1 to the consolidated financial statements included herein. We believe that the following accounting policies affect the most significant estimates and management judgments used in preparing the consolidated financial statements.

Merchandise Inventory

Description
We record an obsolete inventory reserve for the anticipated loss associated with selling inventories below cost. This reserve is based on our current knowledge with respect to inventory levels, sales trends and historical experience. During 2019, our reserve increased approximately $27 million to $105 million as of January 31, 2020.

We also record an inventory reserve for the estimated shrinkage between physical inventories. This reserve is based primarily on actual shrinkage results from previous physical inventories. During 2019, the inventory shrinkage reserve increased approximately $22 million to $244 million as of January 31, 2020.

In addition, we receive funds from vendors in the normal course of business, principally as a result of purchase volumes, sales, early payments or promotions of vendors' products. Generally, these vendor funds do not represent the reimbursement of specific, incremental and identifiable costs that we incurred to sell the vendor's product. Many of the vendor funds associated with these purchases are earned under agreements that are negotiated on an annual basis or shorter. The funds are recorded as a reduction to the cost of inventory as they are earned. As the related inventory is sold, the amounts are recorded as a reduction to cost of sales. Funds that are determined to be reimbursements of specific, incremental and identifiable costs incurred to sell vendors' products are recorded as an offset to the related expense.

Judgments and uncertainties involved in the estimate
We do not believe that our merchandise inventories are subject to significant risk of obsolescence in the near term, and we have the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns or a deterioration in product quality could result in the need for additional reserves. Likewise, changes in the estimated shrink reserve may be necessary, based on the timing and results of physical inventories. We also apply judgment in the determination of levels of obsolete inventory and assumptions about net realizable value.

For vendor funds, we develop accrual rates based on the provisions of the agreements in place. Due to the complexity and diversity of the individual vendor agreements, we perform analyses and review historical purchase trends and volumes throughout the year, adjust accrual rates as appropriate and confirm actual amounts with select vendors to ensure the amounts earned are appropriately recorded. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met.

Effect if actual results differ from assumptions
We have not made any material changes in the methodology used to establish our inventory valuation or the related reserves for obsolete inventory or inventory shrinkage during the past three fiscal years. We believe that we have sufficient current and historical knowledge to record reasonable estimates for both of these inventory reserves. However, it is possible that actual results could differ from recorded reserves. A 10% change in either the amount of products considered obsolete or the weighted average estimated loss rate used in the calculation of our obsolete inventory reserve would have affected net earnings by approximately $5 million for 2019. A 10% change in the estimated shrinkage rate included in the calculation of our inventory shrinkage reserve would have affected net earnings by approximately $18 million for 2019.

We have not made any material changes in the methodology used to recognize vendor funds during the past three fiscal years. If actual results are not consistent with the assumptions and estimates used, we could be exposed to additional adjustments that could positively or negatively impact gross margin and inventory. However, substantially all receivables associated with these activities do not require subjective long-term estimates because they are collected within the following fiscal year. Adjustments to gross margin and inventory in the following fiscal year have historically not been material.

Long-Lived Asset Impairment

Description
We review the carrying amounts of locations whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. When evaluating locations for impairment, our asset group is at an individual location level, as that is the lowest level for which cash flows are identifiable. Cash flows for individual locations do not include an allocation of corporate overhead.

We evaluate locations for triggering events relating to long-lived asset impairment on a quarterly basis to determine when a location's asset may not be recoverable. For operating locations, our primary indicator that assets may not be recoverable is consistently negative cash flow for a 12-month period for those locations that have been open in the same location for a sufficient period of time to allow for meaningful analysis of ongoing operating results. Management also monitors other factors when evaluating operating locations for impairment, including individual locations' execution of their operating plans and local market conditions, including incursion, which is the opening of either other Lowe's locations or those of a direct competitor within the same market. We also consider there to be a triggering event when there is a current expectation that it is more likely than not that a given location will be closed or otherwise disposed of significantly before the end of its previously estimated useful life.

A potential impairment has occurred if projected future undiscounted cash flows expected to result from the use and eventual disposition of the location's assets are less than the carrying amount of the assets. The carrying value of a location's asset group includes inventory, property, operating and finance lease right-of-use assets and operating liabilities including inventory payables, salaries payable and operating lease liabilities. Financial and nonoperating liabilities are excluded from the carrying value of the asset group. When determining the stream of projected future cash flows associated with an individual operating location, management makes assumptions, incorporating local market conditions, about key store variables including sales growth rates, gross margin and controllable expenses, such as store payroll and operating expense, as well as asset residual values or lease rates. Operating lease payments are included in the projected future cash flows. Financing lease payments are excluded from the projected future cash flows. An impairment loss is recognized when the carrying amount of the operating location is not recoverable and exceeds its fair value.

We use an income approach to determine the fair value of our individual operating locations, which requires discounting projected future cash flows. This involves making assumptions regarding both a location's future cash flows, as described above, and an appropriate discount rate to determine the present value of those future cash flows. We discount our cash flow estimates at a rate commensurate with the risk that selected market participants would assign to the cash flows. The selected market participants represent a group of other retailers with a market footprint similar in size to ours.

We use a market approach to determine the fair value of our individual locations identified for closure. This involves making assumptions regarding the estimated selling prices or estimated lease rates by obtaining information from property brokers or appraisers in the specific markets being evaluated. The information includes comparable sales of similar assets and assumptions about demand in the market for purchase or lease of these assets.

Judgments and uncertainties involved in the estimate
Our impairment evaluations require us to apply judgment in determining whether a triggering event has occurred, including the evaluation of whether it is more likely than not that a location will be closed significantly before the end of its previously estimated useful life. Our impairment loss calculations require us to apply judgment in estimating expected future cash flows, including estimated sales, margin, and controllable expenses, assumptions about market performance for operating locations, and estimated selling prices or lease rates for locations identified for closure. We also apply judgment in estimating asset fair values, including the selection of an appropriate discount rate for fair values determined using an income approach.

Effect if actual results differ from assumptions
During fiscal years 2019 and 2018, the Company recorded impairment charges totaling $62 million and $331 million, respectively, within selling, general and administrative expenses in the consolidated statements of earnings. We have not made any material changes in the methodology used to estimate the future cash flows of operating locations or locations identified for closure during the past three fiscal years. If the actual results are not consistent with the assumptions and judgments we have made in determining whether it is more likely than not that a location will be closed significantly before the end of its useful life or in estimating future cash flows and determining asset

fair values, our actual impairment losses could vary from our estimated impairment losses. In the event that our estimates vary from actual results, we may record additional impairment losses, which could be material to our results of operations.

Self-Insurance

Description
We are self-insured for certain losses relating to workers' compensation, automobile, general and product liability, extended protection plan, and certain medical and dental claims. We have excess insurance coverage above certain retention amounts to limit exposure from single events and earnings volatility. Our self-insured retention or deductible, as applicable, is limited to $2 million per occurrence involving workers' compensation, $10 million per occurrence involving general or product liability, and $10 million per occurrence involving automobile. We do not have any excess insurance coverage for self-insured extended protection plan or medical and dental claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon our estimates of the discounted ultimate cost for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. During 2019, our self-insurance liability increased approximately $151 million to $1.1 billion as of January 31, 2020.

Judgments and uncertainties involved in the estimate
These estimates are subject to changes in the regulatory environment, utilized discount rate, projected exposures including payroll, sales and vehicle units, as well as the frequency, lag and severity of claims.

Effect if actual results differ from assumptions
We have not made any material changes in the methodology used to establish our self-insurance liability during the past three fiscal years. Although we believe that we have the ability to reasonably estimate losses related to claims, it is possible that actual results could differ from recorded self-insurance liabilities. A 10% change in our self-insurance liability would have affected net earnings by approximately $83 million for 2019. A 100 basis point change in our discount rate would have affected net earnings by approximately $22 million for 2019.

Item 7A - Quantitative and Qualitative Disclosures about Market Risk

In addition to the risks inherent in our operations, we are exposed to certain market risks, including changes in interest rates, commodity prices and foreign currency exchange rates.

Interest Rate Risk

We use forward starting interest rate swaps to hedge our exposure to the impact of interest rate changes in future debt issuances. The fair value of our derivative financial instruments as of January 31, 2020 was not material. Fluctuations in interest rates do not have a material impact on our financial condition and results of operations because our long-term debt is carried at amortized cost and consists primarily of fixed-rate instruments. Therefore, providing quantitative information about interest rate risk is not meaningful for our financial instruments.

Commodity Price Risk

We purchase certain commodity products that are subject to price volatility caused by factors beyond our control. We believe that the price volatility of these products is partially mitigated by our ability to adjust selling prices. The selling prices of these commodity products are influenced, in part, by the market price we pay, which is determined by industry supply and demand. We do not believe that changing prices for commodities due to inflation or deflation have had a material effect on our net sales or results of operations.

Foreign Currency Exchange Rate Risk

Although we have international operating entities, our exposure to foreign currency rate fluctuations is not material to our financial condition and result of operations.

Item 8 - Financial Statements and Supplementary Data

Table of Contents

	Page No.
Management's Report on Internal Control over Financial Reporting	37
Report of Independent Registered Public Accounting Firm	38
Consolidated Statements of Earnings	41
Consolidated Statements of Comprehensive Income	41
Consolidated Balance Sheets	42
Consolidated Statements of Shareholders' Equity	43
Consolidated Statements of Cash Flows	44
Notes to Consolidated Financial Statements	45
Note 1: Summary of Significant Accounting Policies	45
Note 2: Revenue	51
Note 3: Acquisitions	53
Note 4: Investment in Australian Joint Venture	54
Note 5: Leases	54
Note 6: Fair Value Measurements	56
Note 7: Property and Accumulated Depreciation	59
Note 8: Exit Activities	60
Note 9: Short-Term Borrowings	62
Note 10: Long-Term Debt	63
Note 11: Shareholders' Equity	64
Note 12: Accounting for Share-Based Payments	65
Note 13: Employee Retirement Plans	69
Note 14: Income Taxes	70
Note 15: Earnings Per Share	72
Note 16: Commitments and Contingencies	72
Note 17: Related Parties	73
Note 18: Other Information	73
Note 19: Subsequent Events	74

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Lowe’s Companies, Inc. and its subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting (Internal Control) as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Our Internal Control was designed to provide reasonable assurance to our management and the Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the reliability of financial reporting and financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness may vary over time.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our Internal Control as of January 31, 2020. In evaluating our Internal Control, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on our management’s assessment, we have concluded that, as of January 31, 2020, our Internal Control is effective.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the financial statements contained in this Annual Report, was engaged to audit our Internal Control. Their report appears on page 40.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Lowe's Companies, Inc. and subsidiaries (the "Company") as of January 31, 2020 and February 1, 2019, the related consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows, for each of the three fiscal years in the period ended January 31, 2020, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 31, 2020 and February 1, 2019, and the results of its operations and its cash flows for each of the three fiscal years in the period ended January 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 23, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Accounting Pronouncement Recently Adopted

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for leases in the fiscal year ended January 31, 2020 due to the adoption of Financial Accounting Standards Board Accounting Standards Update 2016-02, *Leases (Topic 842).*

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Merchandise Inventory - Vendor Funds - Refer to Note 1 to the financial statements

Critical Audit Matter Description

The Company receives funds from its vendors in the normal course of business, principally as a result of purchase volumes, sales, early payments or promotions of vendors' products. In the fiscal year ended January 31, 2020, the Company purchased inventory from a significant number of vendors. Many of the vendor funds associated with these purchases are earned under agreements that are negotiated on an annual basis or shorter. The funds are recorded as a reduction to the cost of inventory as they are earned. As the related inventory is sold, the amounts are recorded as a reduction to cost of sales.

We identified vendor funds as a critical audit matter because of the number, complexity, and diversity of the individual vendor agreements. This required an increased extent of effort when performing audit procedures to evaluate whether the vendor funds were recorded in accordance with the terms of the vendor agreements.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to whether the vendor funds were recorded in accordance with the terms of the vendor agreements included the following, among others:

- We tested the effectiveness of controls over vendor funds, including management's controls over the accrual and recording of vendor funds as a reduction to the cost of inventory or cost of sales in accordance with the terms of the vendor agreements.
- We selected a sample of vendor funds and recalculated the amount earned using the terms of the vendor agreement, including the amount recorded as a reduction to the cost of inventory and/or the amount recorded as a reduction to cost of sales.
- We selected a sample of vendor funds and confirmed the amount earned and terms of the agreement directly with the vendor.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
March 23, 2020

We have served as the Company's auditor since 1962.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Lowe’s Companies, Inc. and subsidiaries (the “Company”) as of January 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the fiscal year ended January 31, 2020 of the Company and our report dated March 23, 2020, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company’s adoption of Financial Accounting Standards Board Accounting Standards Update 2016-02, *Leases (Topic 842)*.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
March 23, 2020

Lowe's Companies, Inc.
Consolidated Statements of Earnings
(In millions, except per share and percentage data)

	Fiscal Years Ended					
	January 31, 2020		February 1, 2019		February 2, 2018	
Current Earnings	**Amount**	**% Sales**	**Amount**	**% Sales**	**Amount**	**% Sales**
Net sales	**$ 72,148**	**100.00 %**	**$ 71,309**	**100.00 %**	**$ 68,619**	**100.00 %**
Cost of sales	49,205	68.20	48,401	67.88	46,185	67.31
Gross margin	**22,943**	**31.80**	**22,908**	**32.12**	**22,434**	**32.69**
Expenses:						
Selling, general and administrative	15,367	21.30	17,413	24.41	14,444	21.04
Depreciation and amortization	1,262	1.75	1,477	2.07	1,404	2.05
Operating income	**6,314**	**8.75**	**4,018**	**5.64**	**6,586**	**9.60**
Interest - net	691	0.96	624	0.88	633	0.92
Loss on extinguishment of debt	—	—	—	—	464	0.68
Pre-tax earnings	**5,623**	**7.79**	**3,394**	**4.76**	**5,489**	**8.00**
Income tax provision	1,342	1.86	1,080	1.52	2,042	2.98
Net earnings	**$ 4,281**	**5.93 %**	**$ 2,314**	**3.24 %**	**$ 3,447**	**5.02 %**
Basic earnings per common share	**$ 5.49**		**$ 2.84**		**$ 4.09**	
Diluted earnings per common share	**$ 5.49**		**$ 2.84**		**$ 4.09**	
Cash dividends per share	**$ 2.13**		**$ 1.85**		**$ 1.58**	

Lowe's Companies, Inc.
Consolidated Statements of Comprehensive Income
(In millions, except percentage data)

	Fiscal Years Ended					
	January 31, 2020		February 1, 2019		February 2, 2018	
	Amount	**% Sales**	**Amount**	**% Sales**	**Amount**	**% Sales**
Net earnings	**$ 4,281**	**5.93 %**	**$ 2,314**	**3.24 %**	**$ 3,447**	**5.02 %**
Foreign currency translation adjustments - net of tax	94	0.13	(221)	(0.30)	251	0.37
Other	(21)	(0.03)	1	—	—	—
Other comprehensive income/(loss)	**73**	**0.10**	**(220)**	**(0.30)**	**251**	**0.37**
Comprehensive income	**$ 4,354**	**6.03 %**	**$ 2,094**	**2.94 %**	**$ 3,698**	**5.39 %**

See accompanying notes to consolidated financial statements.

Table of Contents

Lowe's Companies, Inc.
Consolidated Balance Sheets
(In millions, except par value)

		January 31, 2020	February 1, 2019
Assets			
Current assets:			
Cash and cash equivalents		$ 716	$ 511
Short-term investments		160	218
Merchandise inventory - net		13,179	12,561
Other current assets		1,263	938
Total current assets		**15,318**	**14,228**
Property, less accumulated depreciation		18,669	18,432
Operating lease right-of-use assets		3,891	—
Long-term investments		372	256
Deferred income taxes - net		216	294
Goodwill		303	303
Other assets		702	995
Total assets		**$ 39,471**	**$ 34,508**
Liabilities and shareholders' equity			
Current liabilities:			
Short-term borrowings		$ 1,941	$ 722
Current maturities of long-term debt		597	1,110
Current operating lease liabilities		501	—
Accounts payable		7,659	8,279
Accrued compensation and employee benefits		684	662
Deferred revenue		1,219	1,299
Other current liabilities		2,581	2,425
Total current liabilities		**15,182**	**14,497**
Long-term debt, excluding current maturities		16,768	14,391
Noncurrent operating lease liabilities		3,943	—
Deferred revenue - extended protection plans		894	827
Other liabilities		712	1,149
Total liabilities		**37,499**	**30,864**
Commitments and contingencies			
Shareholders' equity:			
Preferred stock - $5 par value, none issued		—	—
Common stock - $0.50 par value;			
Shares issued and outstanding			
January 31, 2020	763		
February 1, 2019	801	381	401
Capital in excess of par value		—	—
Retained earnings		1,727	3,452
Accumulated other comprehensive loss		(136)	(209)
Total shareholders' equity		**1,972**	**3,644**
Total liabilities and shareholders' equity		**$ 39,471**	**$ 34,508**

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc.
Consolidated Statements of Shareholders' Equity
(In millions, except per share data)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
	Shares	Amount				
Balance February 3, 2017	**866**	**$ 433**	**$ —**	**$ 6,241**	**$ (240)**	**$ 6,434**
Net earnings				3,447		3,447
Other comprehensive income					251	251
Cash dividends declared, $1.58 per share				(1,324)		(1,324)
Share-based payment expense			99			99
Repurchase of common stock	(40)	(20)	(215)	(2,939)		(3,174)
Issuance of common stock under share-based payment plans	4	2	138			140
Balance February 2, 2018	**830**	**$ 415**	**$ 22**	**$ 5,425**	**$ 11**	**$ 5,873**
Cumulative effect of accounting change				33		33
Net earnings				2,314		2,314
Other comprehensive loss					(220)	(220)
Cash dividends declared, $1.85 per share				(1,500)		(1,500)
Share-based payment expense			74			74
Repurchase of common stock	(32)	(16)	(209)	(2,820)		(3,045)
Issuance of common stock under share-based payment plans	3	2	113			115
Balance February 1, 2019	**801**	**$ 401**	**$ —**	**$ 3,452**	**$ (209)**	**$ 3,644**
Cumulative effect of accounting change				(263)		(263)
Net earnings				4,281		4,281
Other comprehensive income					73	73
Cash dividends declared, $2.13 per share				(1,653)		(1,653)
Share-based payment expense			98			98
Repurchase of common stock	(41)	(21)	(214)	(4,090)		(4,325)
Issuance of common stock under share-based payment plans	3	1	116			117
Balance January 31, 2020	**763**	**$ 381**	**$ —**	**$ 1,727**	**$ (136)**	**$ 1,972**

See accompanying notes to consolidated financial statements.

Table of Contents

Lowe's Companies, Inc.
Consolidated Statements of Cash Flows
(In millions)

	Fiscal Years Ended		
	January 31, 2020	**February 1, 2019**	**February 2, 2018**
Cash flows from operating activities:			
Net earnings	$ 4,281	$ 2,314	$ 3,447
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	1,410	1,607	1,540
Noncash lease expense	468	—	—
Deferred income taxes	177	(151)	53
Loss on property and other assets - net	117	630	40
Impairment of goodwill	—	952	—
Loss on extinguishment of debt	—	—	464
Loss/(gain) on cost method and equity method investments	12	9	(82)
Share-based payment expense	98	74	99
Changes in operating assets and liabilities:			
Merchandise inventory – net	(600)	(1,289)	(791)
Other operating assets	(376)	(110)	250
Accounts payable	(637)	1,720	(92)
Other operating liabilities	(654)	437	137
Net cash provided by operating activities	**4,296**	**6,193**	**5,065**
Cash flows from investing activities:			
Purchases of investments	(743)	(1,373)	(981)
Proceeds from sale/maturity of investments	695	1,393	1,114
Capital expenditures	(1,484)	(1,174)	(1,123)
Proceeds from sale of property and other long-term assets	163	76	45
Acquisition of business - net	—	—	(509)
Other – net	—	(2)	13
Net cash used in investing activities	**(1,369)**	**(1,080)**	**(1,441)**
Cash flows from financing activities:			
Net change in commercial paper	220	(415)	625
Net proceeds from issuance of debt	3,972	—	2,968
Repayment of long-term debt	(1,113)	(326)	(2,849)
Proceeds from issuance of common stock under share-based payment plans	118	114	139
Cash dividend payments	(1,618)	(1,455)	(1,288)
Repurchase of common stock	(4,313)	(3,037)	(3,192)
Other – net	(1)	(5)	(10)
Net cash used in financing activities	**(2,735)**	**(5,124)**	**(3,607)**
Effect of exchange rate changes on cash	**1**	**(12)**	**13**
Net increase/(decrease) in cash and cash equivalents, including cash classified within current assets held for sale	193	(23)	30
Less: Net increase/(decrease) in cash classified within current assets held for sale	12	(54)	—
Net increase/(decrease) in cash and cash equivalents	205	(77)	30
Cash and cash equivalents, beginning of year	511	588	558

Cash and cash equivalents, end of year	**$**	**716**	**$**	**511**	**$**	**588**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 31, 2020, FEBRUARY 1, 2019 AND FEBRUARY 2, 2018

NOTE 1: Summary of Significant Accounting Policies

Lowe’s Companies, Inc. and subsidiaries (the Company) is the world’s second-largest home improvement retailer and operated 1,977 stores in the United States and Canada at January 31, 2020. Below are those accounting policies considered by the Company to be significant.

Fiscal Year - The Company’s fiscal year ends on the Friday nearest the end of January. Each of the fiscal years presented contained 52 weeks. All references herein for the years 2019, 2018, and 2017 represent the fiscal years ended January 31, 2020, February 1, 2019, and February 2, 2018, respectively.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned or controlled operating subsidiaries. All intercompany accounts and transactions have been eliminated.

Foreign Currency - The functional currencies of the Company’s international subsidiaries are generally the local currencies of the countries in which the subsidiaries are located. Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations and cash flows are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is included as a component of shareholders’ equity in accumulated other comprehensive loss. Gains and losses from foreign currency transactions are included in selling, general and administrative (SG&A) expense.

Use of Estimates - The preparation of the Company’s financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosures of contingent assets and liabilities. The Company bases these estimates on historical results and various other assumptions believed to be reasonable, all of which form the basis for making estimates concerning the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased. Cash and cash equivalents are carried at amortized cost on the consolidated balance sheets. The majority of payments due from financial institutions for the settlement of credit card and debit card transactions process within two business days and are, therefore, classified as cash and cash equivalents.

Investments - Investments generally consist of money market funds, corporate debt securities, agency securities, and governmental securities, all of which are classified as available-for-sale. Available-for-sale debt securities are recorded at fair value, and unrealized gains and losses are recorded, net of tax, as a component of accumulated other comprehensive loss. Gross unrealized gains and losses were not significant for any of the periods presented.

The proceeds from sales of available-for-sale debt securities were $121 million, $506 million, and $523 million for 2019, 2018, and 2017, respectively. Gross realized gains and losses on the sale of available-for-sale debt securities were not significant for any of the periods presented.

Investments with a stated maturity date of one year or less from the balance sheet date or that are expected to be used in current operations are classified as short-term investments. All other investments are classified as long-term. Investments classified as long-term at January 31, 2020, will mature in one to three years, based on stated maturity dates.

The Company classifies as investments restricted balances primarily pledged as collateral for the Company’s extended protection plan program. Restricted balances included in short-term investments were $160 million at January 31, 2020, and $218 million at February 1, 2019. Restricted balances included in long-term investments were $372 million at January 31, 2020, and $256 million at February 1, 2019.

Merchandise Inventory - The majority of the Company’s inventory is stated at the lower of cost and net realizable value using the first-in, first-out method of inventory accounting. Inventory for certain subsidiaries representing approximately 6% and 7% of the consolidated inventory balances as of January 31, 2020 and February 1, 2019, respectively, are stated at lower of cost and net realizable value using the weighted average cost method. The cost of inventory includes certain costs associated with the preparation of inventory for resale, including distribution center costs, and is net of vendor funds.

The Company records an inventory reserve for the anticipated loss associated with selling inventories below cost. This reserve is based on management's current knowledge with respect to inventory levels, sales trends, and historical experience. Management does not believe the Company's merchandise inventories are subject to significant risk of obsolescence in the near term, and management has the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns could result in the need for additional reserves. The Company also records an inventory reserve for the estimated shrinkage between physical inventories. This reserve is based primarily on actual shrink results from previous physical inventories. Changes in the estimated shrink reserve are made based on the timing and results of physical inventories.

The Company receives funds from vendors in the normal course of business, principally as a result of purchase volumes, sales, early payments, or promotions of vendors' products. Generally, these vendor funds do not represent the reimbursement of specific, incremental, and identifiable costs incurred by the Company to sell the vendor's product. Therefore, the Company treats these funds as a reduction in the cost of inventory and are recognized as a reduction of cost of sales when the inventory is sold. Funds that are determined to be reimbursements of specific, incremental, and identifiable costs incurred to sell vendors' products are recorded as an offset to the related expense. The Company develops accrual rates for vendor funds based on the provisions of the agreements in place. Due to the complexity and diversity of the individual vendor agreements, the Company performs analyses and reviews historical trends throughout the year and confirms actual amounts with select vendors to ensure the amounts earned are appropriately recorded. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected annual purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met.

Derivative Financial Instruments - The Company is exposed to the impact of changes in foreign currency exchange rates, benchmark interest rates, and the prices of commodities used in the normal course of business. The Company occasionally utilizes derivative financial instruments to manage certain business risks. However, the fair value of the Company's derivative instruments and related activity were not material to the Company's consolidated financial statements in any of the years presented.

Sale of Business Accounts Receivable and Credit Programs - The Company has branded and private label proprietary credit cards which generate sales that are not reflected in receivables. Under an agreement with Synchrony Bank (Synchrony), credit is extended directly to customers by Synchrony. All credit program-related services are performed and controlled directly by Synchrony. The Company has the option, but no obligation, to purchase the receivables at the end of the agreement.

The Company also has an agreement with Synchrony under which Synchrony purchases at face value commercial business accounts receivable originated by the Company and services these accounts. The Company primarily accounts for these transfers as sales of the accounts receivable. When the Company transfers its commercial business accounts receivable, it retains certain interests in those receivables, including the funding of a loss reserve and its obligation related to Synchrony's ongoing servicing of the receivables sold. Any gain or loss on the sale is determined based on the previous carrying amounts of the transferred assets allocated at fair value between the receivables sold and the interests retained. Fair value is based on the present value of expected future cash flows, taking into account the key assumptions of anticipated credit losses, payment rates, late fee rates, Synchrony's servicing costs, and the discount rate commensurate with the uncertainty involved. Due to the short-term nature of the receivables sold, changes to the key assumptions would not materially impact the recorded gain or loss on the sales of receivables or the fair value of the retained interests in the receivables.

Total commercial business accounts receivable sold to Synchrony were $3.2 billion in 2019, $3.1 billion in 2018, and $3.1 billion in 2017. The Company recognized losses of $41 million in 2019, $41 million in 2018, and $39 million in 2017 on these receivable sales, which primarily relates to the fair value of obligations related to servicing costs that are remitted to Synchrony monthly.

Property and Depreciation - Property is recorded at cost. Costs associated with major additions are capitalized and depreciated. Capital assets are expected to yield future benefits and have original useful lives which exceed one year. The total cost of a capital asset generally includes all applicable sales taxes, delivery costs, installation costs, and other appropriate costs incurred by the Company, including interest in the case of self-constructed assets. Upon disposal, the cost of properties and related accumulated depreciation is removed from the accounts, with gains and losses reflected in SG&A expense in the consolidated statements of earnings.

Property consists of land, buildings and building improvements, equipment, finance lease assets, and construction in progress. Buildings and building improvements includes owned buildings, as well as buildings under finance lease and leasehold improvements. Equipment primarily includes store racking and displays, computer hardware and software, forklifts, vehicles, finance lease equipment, and other store equipment.

Depreciation is recognized over the estimated useful lives of the depreciable assets. Assets are depreciated using the straight-line method. Leasehold improvements and finance lease assets are depreciated and amortized, respectively, over the shorter of their estimated useful lives or the term of the related lease. The amortization of these assets is included in depreciation and amortization expense in the consolidated statements of earnings.

Long-Lived Asset Impairment - The carrying amounts of long-lived assets are reviewed whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. A potential impairment has occurred for long-lived assets held-for-use if projected future undiscounted cash flows expected to result from the use and eventual disposition of the assets are less than the carrying amounts of the assets. The carrying value of a location's asset group includes inventory, property, operating and finance lease right-of-use assets, and operating liabilities, including inventory payables, salaries payable and operating lease liabilities. Financial and non-operating liabilities are excluded from the carrying value of the asset group. An impairment loss is recorded for long-lived assets held-for-use when the carrying amount of the asset is not recoverable and exceeds its fair value.

Excess properties that are expected to be sold within the next 12 months and meet the other relevant held-for-sale criteria are classified as long-lived assets held-for-sale. Excess properties consist primarily of retail outparcels and property associated with relocated or closed locations. An impairment loss is recorded for long-lived assets held-for-sale when the carrying amount of the asset exceeds its fair value less cost to sell. A long-lived asset is not depreciated while it is classified as held-for-sale.

For long-lived assets to be abandoned, the Company considers the asset to be disposed of when it ceases to be used. Until it ceases to be used, the Company continues to classify the asset as held-for-use and tests for potential impairment accordingly. If the Company commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, its depreciable life is re-evaluated.

Impairment losses are included in SG&A expense in the consolidated statements of earnings. Fair value measurements associated with long-lived asset impairments are further described in Note 6 to the consolidated financial statements.

Goodwill - Goodwill is the excess of the purchase price over the fair value of identifiable assets acquired, less liabilities assumed, in a business combination. The Company reviews goodwill for impairment at the reporting unit level, which is the operating segment level or one level below the operating segment level. Goodwill is not amortized but is evaluated for impairment at least annually on the first day of the fourth quarter or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount may not be recoverable. The evaluation begins with a qualitative assessment to determine whether a quantitative impairment test is necessary. If, after assessing qualitative factors, we determine it is more likely than not that the fair value of the reporting unit is less than the carrying amount, then the quantitative goodwill impairment test is performed.

The quantitative goodwill impairment test used to identify potential impairment compares the fair value of a reporting unit with its carrying amount, including goodwill. Fair value represents the price a market participant would be willing to pay in a potential sale of the reporting unit and is based on a combination of an income approach, based on discounted future cash flows, and a market approach, based on market multiples applied to free cash flow. If the fair value exceeds carrying value, then no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Any impairment identified is included within SG&A expense in the consolidated statements of earnings. The income tax effect from any tax deductible goodwill on the carrying amount of the reporting unit, if applicable, is considered in determining the goodwill impairment loss.

A reporting unit is an operating segment or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. During fiscal 2019, goodwill was allocated to the U.S. Home Improvement reporting unit.

The changes in the carrying amount of goodwill for 2019, 2018, and 2017 were as follows:

(In millions)		2019		2018		2017
Goodwill, balance at beginning of year	**$**	**303**	**$**	**1,307**	**$**	**1,082**
Acquisitions [1]		—		—		160
Impairment		—		(952)		—
Other adjustments [2]		—		(52)		65
Goodwill, balance at end of year	**$**	**303**	**$**	**303**	**$**	**1,307**

[1] *Goodwill recorded for 2017 acquisitions relates to Maintenance Supply Headquarters. See Note 3 for additional information regarding this acquisition.*

[2] *Other adjustments primarily consist of changes in the goodwill balance as a result of foreign currency translation.*

The Company's annual goodwill impairment analysis performed during the fourth quarter of fiscal 2018 included a quantitative analysis of the Canada-Retail and Canada-Distribution reporting units. The Company classified these fair value measurements as Level 3. See Note 6 for additional information on the Company's fair value measurements. The Company performed a discounted cash flow analysis and market multiple analysis for the Canada-Retail and Canada-Distribution reporting units. These discounted cash flow models included management assumptions for expected sales growth, margin expansion, operational leverage, capital expenditures, and overall operational forecasts. The market multiple analysis included historical and projected performance, market capitalization, volatility, and multiples for industry peers. These analyses led to the conclusion that the fair value of these reporting units was less than their carrying values by an amount that exceeded the carrying value of goodwill, primarily driven by a softening outlook for the Canadian housing market. Accordingly, the full carrying value of $952 million relating to the Canadian reporting units' goodwill was impaired during the fourth quarter of 2018.

Gross carrying amounts and cumulative goodwill impairment losses are as follows:

	January 31, 2020		February 1, 2019	
(In millions)	Gross Carrying Amount	Cumulative Impairment	Gross Carrying Amount	Cumulative Impairment
Goodwill	$ 1,302	$ (999)	$ 1,302	$ (999)

Leases - Effective February 2, 2019, the Company adopted ASU 2016-02, *Leases (Topic 842)*, which requires leases to be recognized on the balance sheet. Leases with an original term of 12 months or less are not recognized on the Company's balance sheet, and the lease expense related to those short-term leases is recognized over the lease term. The Company does not account for lease and non-lease (e.g. common area maintenance) components of contracts separately for any underlying asset class.

The Company leases certain retail stores, warehouses, distribution centers, office space, land and equipment under finance and operating leases. Lease commencement occurs on the date the Company takes possession or control of the property or equipment. Original terms for facility-related leases are generally between five and twenty years. These leases generally contain provisions for four to six renewal options of five years each. Original terms for equipment-related leases, primarily material handling equipment and vehicles, are generally between one and seven years. Some of the Company's leases also include rental escalation clauses and/or termination provisions. Renewal options and termination options are included in the determination of lease payments when management determines the options are reasonably certain of exercise, considering financial performance, strategic importance and/or invested capital.

If readily determinable, the rate implicit in the lease is used to discount lease payments to present value; however, substantially all of the Company's leases do not provide a readily determinable implicit rate. When the implicit rate is not determinable, the Company's estimated incremental borrowing rate is utilized, determined on a collateralized basis, to discount lease payments based on information available at lease commencement.

The Company's real estate leases typically require payment of common area maintenance and real estate taxes which represent the majority of variable lease costs. Certain lease agreements also provide for variable rental payments based on sales performance in excess of specified minimums, usage measures, or changes in the consumer price index. Variable rent payments based on future performance, usage, or changes in indices were not significant for any of the periods presented. Variable lease costs are excluded from the present value of lease obligations.

The Company's lease agreements do not contain any material restrictions, covenants, or any material residual value guarantees. The Company subleases certain properties that are not used in its operations. Sublease income was not significant for any of the periods presented.

Accounts Payable - The Company has agreements with third parties to provide accounts payable tracking systems which facilitate participating suppliers' ability to finance payment obligations from the Company with designated third-party financial institutions. Participating suppliers may, at their sole discretion, make offers to finance one or more payment obligations of the Company prior to their scheduled due dates at a discounted price to participating financial institutions. The Company's goal in entering into these arrangements is to capture overall supply chain savings in the form of pricing, payment terms, or vendor funding, created by facilitating suppliers' ability to finance payment obligations at more favorable discount rates, while providing them with greater working capital flexibility.

The Company's obligations to its suppliers, including amounts due and scheduled payment dates, are not impacted by suppliers' decisions to finance amounts under these arrangements. However, the Company's right to offset balances due from suppliers against payment obligations is restricted by these arrangements for those payment obligations that have been financed by suppliers. The Company's outstanding payment obligations placed on the accounts payable tracking systems were $1.9 billion as of January 31, 2020 and $2.1 billion as of February 1, 2019, and are included in accounts payable on the consolidated balance sheets, and participating suppliers financed $1.3 billion and $1.5 billion, respectively, of those payment obligations to participating financial institutions. Total payment obligations that were placed and settled on the accounts payable tracking system were $8.7 billion and $8.4 billion for each of the years ended January 31, 2020 and February 1, 2019, respectively.

Other Current Liabilities - Other current liabilities on the consolidated balance sheets consist of:

(In millions)		**January 31, 2020**		**February 1, 2019**
Self-insurance liabilities	$	501	$	378
Accrued dividends		420		385
Accrued interest		221		184
Sales return reserve		194		194
Sales tax liabilities		153		179
Accrued property taxes		104		108
Other		988		997
Total	**$**	**2,581**	**$**	**2,425**

Self-Insurance - The Company is self-insured for certain losses relating to workers' compensation, automobile, property, and general and product liability claims. The Company has insurance coverage to limit the exposure arising from these claims. The Company is also self-insured for certain losses relating to extended protection plan and medical and dental claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon management's estimates of the discounted ultimate cost for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. Although management believes it has the ability to reasonably estimate losses related to claims, it is possible that actual results could differ from recorded self-insurance liabilities. The total self-insurance liability, including the current and non-current portions, was $1.1 billion and $953 million at January 31, 2020, and February 1, 2019, respectively.

The Company provides surety bonds issued by insurance companies to secure payment of workers' compensation liabilities as required in certain states where the Company is self-insured. Outstanding surety bonds relating to self-insurance were $262 million and $246 million at January 31, 2020, and February 1, 2019, respectively.

Income Taxes - The Company establishes deferred income tax assets and liabilities for temporary differences between the tax and financial accounting bases of assets and liabilities. The tax effects of such differences are reflected in the consolidated balance sheets at the enacted tax rates expected to be in effect when the differences reverse. A valuation allowance is recorded to reduce the carrying amount of deferred tax assets if it is more likely than not that all or a portion of the asset will not be realized. The tax balances and income tax expense recognized by the Company are based on management's interpretation of the tax statutes of multiple jurisdictions.

The Company establishes a liability for tax positions for which there is uncertainty as to whether or not the position will be ultimately sustained. The Company includes interest related to tax issues as part of net interest on the consolidated financial statements. The Company records any applicable penalties related to tax issues within the income tax provision.

Shareholders' Equity - The Company has a share repurchase program that is executed through purchases made from time to time either in the open market or through private market transactions. Shares purchased under the repurchase program are retired and returned to authorized and unissued status. Any excess of cost over par value is charged to additional paid-in capital to the extent that a balance is present. Once additional paid-in capital is fully depleted, remaining excess of cost over par value is charged to retained earnings.

Revenue Recognition - The Company recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. A description of the Company's principle revenue generating activities is as follows:

- *Products* - Revenue from products primarily relates to in-store and online merchandise purchases, which are recognized at the point in time when the customer obtains control of the merchandise. This occurs at the time of in-store purchase or delivery of the product to the customer. A provision for anticipated merchandise returns is provided through a reduction of sales and cost of sales in the period that the related sales are recorded. The merchandise return reserve is presented on a gross basis, with a separate asset and liability included in the consolidated balance sheets.

- *Services* - Revenues from services primarily relate to professional installation services the Company provides through subcontractors related to merchandise purchased by a customer. In certain instances, installation services include materials provided by the subcontractor, and both product and installation are included in service revenue. The Company recognizes revenue associated with services as they are rendered, and the majority of services are completed within one week from initiation.

Deferred revenue is presented for merchandise that has not yet transferred control to the customer and for services that have not yet been provided, but for which tender has been accepted. Deferred revenue is recognized in sales either at a point in time when the customer obtains control of merchandise through pickup or delivery, or over time as services are provided to the customer. In addition, the Company defers revenues from stored-value cards, which include gift cards and returned merchandise credits, and recognizes revenue into sales when the cards are redeemed.

The Company also defers revenues for its separately-priced extended protection plan contracts, which is a Lowe's-branded program for which the Company is ultimately self-insured. The Company recognizes revenue from extended protection plan sales on a straight-line basis over the respective contract term. Extended protection plan contract terms primarily range from one to five years from the date of purchase or the end of the manufacturer's warranty, as applicable.

Cost of Sales and Selling, General and Administrative Expenses - The following lists the primary costs classified in each major expense category:

Cost of Sales

- Total cost of products sold, including:
  - Purchase costs, net of vendor funds;
  - Freight expenses associated with moving merchandise inventories from vendors to selling locations;
  - Costs associated with operating the Company's distribution network, including payroll and benefit costs and occupancy costs;
  - Depreciation of assets associated with the Company's distribution network;
- Costs of installation services provided;
- Costs associated with shipping and handling to customers, as well as directly from vendors to customers by third parties;
- Depreciation of assets used in delivering product to customers;

Selling, General and Administrative

- Payroll and benefit costs for retail and corporate employees;
- Occupancy costs of retail and corporate facilities;
- Advertising;
- Third-party, in-store service costs;
- Tender costs, including bank charges, costs associated with credit card interchange fees;
- Costs associated with self-insured plans, and premium costs for stop-loss coverage and fully insured plans;
- Long-lived asset impairment losses, gains/losses on disposal of assets, and exit costs;
- Other administrative costs, such as supplies, and travel and entertainment.

- Costs associated with inventory shrinkage and obsolescence;
- Costs of services performed under the extended protection plan.

Advertising - Costs associated with advertising are charged to expense as incurred. Advertising expenses were $871 million, $963 million, and $968 million in 2019, 2018, and 2017, respectively.

Store Opening Costs - Costs of opening new or relocated retail stores, which include payroll and supply costs incurred prior to store opening and grand opening advertising costs, are charged to expense as incurred.

Comprehensive Income - The Company reports comprehensive income in its consolidated statements of comprehensive income and consolidated statements of shareholders' equity. Comprehensive income represents changes in shareholders' equity from non-owner sources and is comprised of net earnings adjusted primarily for foreign currency translation adjustments. Net foreign currency translation losses, net of tax, classified in accumulated other comprehensive loss were $115 million and $209 million at January 31, 2020 and February 1, 2019, respectively. Net foreign currency translation gains, net of tax, classified in accumulated other comprehensive income were $11 million at February 2, 2018.

Segment Information - The Company's home improvement retail operations represent a single reportable segment. Key operating decisions are made at the Company level in order to maintain a consistent retail store presentation. The Company's home improvement retail and hardware stores sell similar products and services, use similar processes to sell those products and services, and sell their products and services to similar classes of customers. In addition, the Company's operations exhibit similar long-term economic characteristics. The amounts of long-lived assets and net sales outside of the U.S. were approximately 7.7% and 6.9%, respectively, at January 31, 2020. The amounts of long-lived assets and net sales outside of the U.S. were approximately 9.1% and 7.6%, respectively, at February 1, 2019. The amounts of long-lived assets and net sales outside of the U.S. were approximately 9.8% and 7.8%, respectively, at February 2, 2018.

Accounting Pronouncements Recently Adopted - Effective February 2, 2019, the Company adopted ASU 2016-02, *Leases (Topic 842)*, and all related amendments, using the optional transition election to not restate comparative periods for the impact of adopting the standard and recognized the cumulative impact of adoption in the opening balance of retained earnings. Under ASU 2016-02, lessees are required to recognize lease assets and lease liabilities on the balance sheet for those leases previously classified as operating leases. The Company elected the package of transition expedients available for expired or existing contracts, which allowed the carry-forward of historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. Adoption of the standard resulted in the recording of additional net lease-related assets and lease-related liabilities of approximately $3.6 billion and $3.9 billion, respectively, as of February 2, 2019. The difference between the additional lease assets and lease liabilities, net of the $87 million deferred tax impact, was $263 million and was recorded as an adjustment to retained earnings. This adjustment to retained earnings primarily represents the write-off of right-of-use assets associated with closed locations, net of previously established store closing lease obligations as well as the derecognition of build-to-suit leases. The adoption of this standard by the Company did not have a material impact on its consolidated statements of earnings, comprehensive income or cash flows and had no impact on the Company's debt covenant compliance under its current agreements. See Note 5 for additional details of the Company's leases.

Effective February 3, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all the related amendments, using the modified retrospective method. Upon adoption of ASU 2014-09, the Company recorded an immaterial adjustment to the opening balance of retained earnings as of February 3, 2018, with related adjustments to other current assets, deferred revenue, accounts payable, other current liabilities, and related tax effects. The adjustment to retained earnings primarily relates to the change in revenue recognition related to gift card breakage. Results for reporting periods beginning after February 2, 2018 are presented under ASU 2014-09, while comparative prior period amounts have not been restated and continue to be presented under accounting standards in effect in those periods. See Note 2 for additional details of the Company's revenues.

Accounting Pronouncements Not Yet Adopted - Recent accounting pronouncements pending adoption not discussed in this Form 10-K are either not applicable to the Company or are not expected to have a material impact on the Company.

NOTE 2: Revenue - Net sales consists primarily of revenue, net of sales tax, associated with contracts with customers for the sale of goods and services in amounts that reflect consideration the Company is entitled to in exchange for those goods and services.

The following table presents the Company's sources of revenue:

	Years Ended		
(In millions)	**January 31, 2020**	**February 1, 2019**	**February 2, 2018**
Products	$ 68,377	$ 67,197	$ 65,421
Services	2,112	2,539	2,469
Other	1,659	1,573	729
Net sales	**$ 72,148**	**$ 71,309**	**$ 68,619**

Revenue from products primarily relates to in-store and online merchandise purchases, which are recognized at the point in time when the customer obtains control of the merchandise. This occurs at the time of in-store purchase or delivery of the product to the customer. A provision for anticipated merchandise returns is provided through a reduction of sales and cost of sales in the period that the related sales are recorded. The merchandise return reserve is presented on a gross basis, with a separate asset and liability included in the consolidated balance sheets. Anticipated sales returns reflected in other current liabilities were $194 million at January 31, 2020 and $194 million at February 1, 2019. The associated right of return assets reflected in other current assets were $129 million at January 31, 2020 and $127 million at February 1, 2019.

Revenues from services primarily relate to professional installation services the Company provides through subcontractors related to merchandise purchased by a customer. In certain instances, installation services include materials provided by the subcontractor, and both product and installation are included in service revenue. The Company recognizes revenue associated with services as they are rendered, and the majority of services are completed within one week from initiation.

Deferred revenue is presented for merchandise that has not yet transferred control to the customer and for services that have not yet been provided, but for which tender has been accepted. Deferred revenue is recognized in sales either at a point in time when the customer obtains control of merchandise through pickup or delivery, or over time as services are provided to the customer. Deferred revenues associated with amounts received for which customers have not taken possession of the merchandise or for which installation has not yet been completed were $685 million at January 31, 2020 and $790 million at February 1, 2019. The majority of revenue for goods and services is recognized in the quarter following revenue deferral.

Stored-value cards

In addition, the Company defers revenues from stored-value cards, which include gift cards and returned merchandise credits, and recognizes revenue into sales when the cards are redeemed. The liability associated with outstanding stored-value cards was $534 million and $509 million at January 31, 2020, and February 1, 2019, respectively, and these amounts are included in deferred revenue on the consolidated balance sheets. The Company recognizes income from unredeemed stored-value cards in proportion to the pattern of rights exercised by the customer. Amounts recognized as breakage were insignificant for the years ended January 31, 2020, February 1, 2019 and February 2, 2018.

Extended protection plans

The Company also defers revenues for its separately priced extended protection plan contracts, which is a Lowe's-branded program for which the Company is ultimately self-insured. The Company recognizes revenue from extended protection plan sales on a straight-line basis over the respective contract term. Extended protection plan contract terms primarily range from one to five years from the date of purchase or the end of the manufacturer's warranty, as applicable. Deferred revenue from extended protection plans recognized into sales were $408 million for the fiscal year ended January 31, 2020, $390 million for the fiscal year ended February 1, 2019, and $368 million for the fiscal year ended February 2, 2018, respectively. Incremental direct acquisition costs associated with the sale of extended protection plans are also deferred and recognized as expense on a straight-line basis over the respective contract term and were insignificant at January 31, 2020, February 1, 2019 and February 2, 2018, respectively. The Company's extended protection plan deferred costs are included in other assets (noncurrent) on the consolidated balance sheets. All other costs, such as costs of services performed under the contract, general and administrative expenses, and advertising expenses are expensed as incurred.

The liability for extended protection plan claims incurred is included in other current liabilities on the consolidated balance sheets and was not material in any of the periods presented. Expenses for claims are recognized when incurred and totaled $184 million for the fiscal year ended January 31, 2020, $183 million for the fiscal year ended February 1, 2019, $161 million for the fiscal year ended February 2, 2018, respectively.

Table of Contents

Disaggregation of Revenues

The following table presents the Company's net sales disaggregated by merchandise division:

	Years Ended					
	January 31, 2020		February 1, 2019		February 2, 2018	
(In millions)	Total Sales	%	Total Sales	%	Total Sales	%
Home Décor [1]	$ 25,867	36	$ 25,261	35	$ 24,521	36
Building Products [2]	23,018	32	22,992	32	22,033	32
Hardlines [3]	21,235	29	20,382	29	19,715	29
Other	2,028	3	2,674	4	2,350	3
Total	**$ 72,148**	**100**	**$ 71,309**	**100**	**$ 68,619**	**100**

Note: Merchandise division net sales for prior periods have been reclassified to conform to the current year presentation.

1 *Home Décor includes the following product categories: Appliances, Décor, Flooring, Kitchens & Bath, and Paint.*

2 *Building Products includes the following product categories: Lighting, Lumber & Building Materials, Millwork, and Rough Plumbing & Electrical.*

3 *Hardlines includes the following product categories: Hardware, Lawn & Garden, Seasonal & Outdoor Living, and Tools.*

The following table presents the Company's net sales disaggregated by geographical area:

	Years Ended		
(In millions)	January 31, 2020	February 1, 2019	February 2, 2018
United States	$ 67,147	$ 65,872	$ 63,263
International	5,001	5,437	5,356
Net Sales	**$ 72,148**	**$ 71,309**	**$ 68,619**

NOTE 3: Acquisitions

Maintenance Supply Headquarters

On June 23, 2017, the Company completed its acquisition of Maintenance Supply Headquarters, a leading distributor of maintenance, repair and operations (MRO) products serving the multifamily housing industry. The acquisition enables the Company to deepen and broaden its relationship with Pro customers and better serve their needs. The aggregate cash purchase price of this acquisition was $513 million and is included in the investing section of the consolidated statements of cash flows, net of the cash acquired. Acquisition-related costs were expensed as incurred and were not significant.

The following table summarizes the aggregate purchase price allocation:

(In millions)	June 23, 2017
Allocation:	
Cash acquired	$ 4
Merchandise inventory	68
Other current assets	36
Property	12
Goodwill	160
Other assets	260
Accounts payable	(18)
Other current liabilities	(9)

Net assets acquired	**$**	**513**

Intangible assets acquired totaled $259 million and include a trademark of $34 million with a useful life of 15 years and a customer list of $225 million with a useful life of 20 years, each of which are included in other assets in the accompanying consolidated balance sheets. The goodwill of $160 million is primarily attributable to the synergies associated with the acquisition and is deductible for tax purposes.

Pro forma and historical financial information has not been provided as the acquisition was not material to the consolidated financial statements.

NOTE 4: Investment in Australian Joint Venture

During the second quarter of fiscal 2017, the Company completed the sale of our interest in the Australian joint venture with Woolworths and received proceeds of $199 million, which is included in cash flows from investing activities in the accompanying consolidated statements of cash flows. The proceeds from the sale exceeded the carrying value of the investment and resulted in a gain of $96 million. The gain is included in SG&A expense in the accompanying consolidated statements of earnings.

NOTE 5: Leases

Effective February 2, 2019, the Company adopted ASU 2016-02, *Leases (Topic 842)*, which requires leases to be recognized on the balance sheet. Leases with an original term of 12 months or less are not recognized on the Company’s balance sheet, and the lease expense related to those short-term leases is recognized over the lease term. The Company does not account for lease and non-lease (e.g. common area maintenance) components of contracts separately for any underlying asset class.

The Company leases certain retail stores, warehouses, distribution centers, office space, land and equipment under finance and operating leases. Lease commencement occurs on the date the Company takes possession or control of the property or equipment. Original terms for our facility-related leases are generally between five and 20 years. These leases generally contain provisions for four to six renewal options of five years each. Original terms for equipment-related leases, primarily material handling equipment and vehicles, are generally between one and seven years. Some of the Company’s leases also include rental escalation clauses and/or termination provisions. Renewal options and termination options are included in the determination of lease payments when management determines the options are reasonably certain of exercise, considering financial performance, strategic importance and/or invested capital.

If readily determinable, the rate implicit in the lease is used to discount lease payments to present value; however, substantially all of the Company’s leases do not provide a readily determinable implicit rate. When the implicit rate is not determinable, the Company’s estimated incremental borrowing rate is utilized, determined on a collateralized basis, to discount lease payments based on information available at lease commencement.

The Company’s real estate leases typically require payment of common area maintenance and real estate taxes which represent the majority of variable lease costs. Certain lease agreements also provide for variable rental payments based on sales performance in excess of specified minimums, usage measures, or changes in the consumer price index. Variable rent payments based on future performance, usage, or changes in indices were not significant for any of the periods presented. Variable lease costs are excluded from the present value of lease obligations.

The Company’s lease agreements do not contain any material restrictions, covenants, or any material residual value guarantees. The Company subleases certain properties that are not used in its operations. Sublease income was not significant for any of the periods presented.

Table of Contents

The table below presents the lease-related assets and liabilities recorded on the balance sheet.

Leases (In millions)	**Classification**		**January 31, 2020**
Assets			
Operating lease assets	Operating lease right-of-use assets	$	3,891
Finance lease assets	Property, less accumulated depreciation [1]		555
Total lease assets			**4,446**
Liabilities			
Current			
Operating	Current operating lease liabilities		501
Finance	Current maturities of long-term debt		72
Noncurrent			
Operating	Noncurrent operating lease liabilities		3,943
Finance	Long-term debt, excluding current maturities		612
Total lease liabilities		**$**	**5,128**

[1] *Finance lease assets are recorded net of accumulated amortization of $42 million as of January 31, 2020.*

The table below presents the lease costs for finance and operating leases for the fiscal year ended January 31, 2020:

Lease Cost (In millions)		**Year Ended January 31, 2020**
Finance lease cost		
Amortization of leased assets	$	45
Interest on lease liabilities		30
Operating lease cost [1]		674
Variable lease cost		224
Total lease cost	**$**	**973**

[1] *Includes short-term leases and sublease income, which are immaterial.*

The future minimum rental payments required under operating and finance lease obligations as of January 31, 2020, having initial or remaining non-cancelable lease terms in excess of one year are summarized as follows:

Maturity of lease liabilities (In millions)		**Operating Leases [1]**		**Finance Leases [2]**		**Total**
2020	$	624	$	104	$	728
2021		662		104		766
2022		684		107		791
2023		588		102		690
2024		498		94		592
After 2024		2,606		352		2,958
Total lease payments		**5,662**		**863**		**6,525**
Less: interest [3]		(1,218)		(179)		(1,397)
Present value of lease liabilities [4]	**$**	**4,444**	**$**	**684**	**$**	**5,128**

[1] *Operating lease payments include $279 million related to options to extend lease terms that are reasonably certain of being exercised and exclude $265 million of minimum lease payments for leases signed but not yet commenced.*

[2] *Finance lease payments include $11 million related to options to extend lease terms that are reasonably certain of being exercised and exclude $45 million of minimum lease payments for leases signed but not yet commenced.*

[3] *Calculated using the lease-specific incremental borrowing rate.*

[4] *Includes the current portion of $501 million for operating leases and $72 million for finance leases.*

Lease Term and Discount Rate	January 31, 2020
Weighted-average remaining lease term (years)	
Operating leases	10.25
Finance leases	9.06
Weighted-average discount rate	
Operating leases	4.10 %
Finance leases	5.64 %

Other Information (In millions)		Year Ended January 31, 2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows used for operating leases	$	825
Operating cash flows used for finance leases		30
Financing cash flows used for finance leases		57
Leased assets obtained in exchange for new finance lease liabilities		329
Leased assets obtained in exchange for new operating lease liabilities		551

Prior Period Disclosures

As a result of the adoption of ASU 2016-02, *Leases (Topic 842)*, on February 2, 2019, the Company is required to present future minimum lease payments for operating and finance lease obligations having initial or remaining non-cancellable lease terms in excess of one year. These future minimum lease payments were previously disclosed in our 2018 Annual Report on Form 10-K and accounted for under previous lease guidance. Commitments as of February 1, 2019 were as follows:

	February 1, 2019					
Fiscal Year (In millions)		**Operating Leases**		**Capitalized Lease Obligations**		**Total**
2019	$	595	$	133	$	728
2020		605		87		692
2021		564		90		654
2022		519		87		606
2023		473		86		559
Later years		2,609		783		3,392
Total minimum lease payments	**$**	**5,365**	**$**	**1,266**	**$**	**6,631**
Less amount representing interest				(492)		
Present value of minimum lease payments				**774**		
Less current maturities				(65)		
Present value of minimum lease payments, less current maturities			**$**	**709**		

Rental expenses under operating leases were $616 million and $626 million in 2018 and 2017, respectively, and were recognized within SG&A expense. Excluded from these amounts are rental expenses associated with closed locations which were recognized as exit costs in the period of closure.

NOTE 6: Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance for fair value measurements establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

- Level 1 **-** inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities

- Level 2 **-** inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly

- Level 3 **-** inputs to the valuation techniques that are unobservable for the assets or liabilities

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The Company’s available-for-sale debt securities represented the only significant assets measured at fair value on a recurring basis for the fiscal years ended January 31, 2020 and February 1, 2019. The following table presents the Company’s financial assets measured at fair value on a recurring basis. The fair values of these instruments approximate amortized cost.

		Fair Value Measurements at	
(In millions)	**Measurement Level**	**January 31, 2020**	**February 1, 2019**
Available-for-sale debt securities:			
Money market funds	Level 1	$ 105	$ 207
Corporate debt securities	Level 2	23	1
Agency securities	Level 2	19	10
U.S. Treasury securities	Level 1	13	—
Total short-term investments		**$ 160**	**$ 218**
Available-for-sale debt securities:			
U.S. Treasury securities	Level 1	$ 280	$ —
Corporate debt securities	Level 2	62	191
Agency securities	Level 2	30	65
Total long-term investments		**$ 372**	**$ 256**

There were no transfers between Levels 1, 2, or 3 during any of the periods presented.

When available, quoted prices were used to determine fair value. When quoted prices in active markets were available, investments were classified within Level 1 of the fair value hierarchy. When quoted prices in active markets were not available, fair values were determined using pricing models, and the inputs to those pricing models were based on observable market inputs. The inputs to the pricing models were typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

For the fiscal years ended January 31, 2020 and February 1, 2019, the Company’s only significant measurements of assets and liabilities at fair value on a nonrecurring basis subsequent to their initial recognition were goodwill (see Note 1 to the consolidated financial statements for additional information regarding this fair value measurement) and certain long-lived assets.

Long-lived assets
The Company reviews the carrying amount of a long-lived asset (group) whenever certain events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets are grouped for review at the lowest level of identifiable cash flows. With input from executive management and retail store operations, the Company’s accounting and finance personnel that organizationally report to the chief financial officer assess the performance of retail stores and other long-lived assets (groups) quarterly against historical patterns, projections of future profitability and whether it is more likely than not the assets (groups) will be disposed of significantly prior to the end of their estimated useful life for evidence of possible impairment. An impairment loss is recognized when the carrying amount of the asset or group is not recoverable and exceeds its fair value. The Company estimated the

fair values of assets subject to long-lived asset impairment based on the Company's own judgments about the assumptions that market participants would use in pricing the assets and on observable market data, when available. The Company classified these fair value measurements as Level 3.

In the determination of impairment for operating locations, the Company determined the fair values of individual operating locations using an income approach, which required discounting projected future cash flows. When determining the stream of projected future cash flows associated with an individual operating location, management made assumptions, including highest and best use, incorporating local market conditions and inputs from retail store operations where necessary, and about key variables including the following unobservable inputs: sales growth rates, gross margin, controllable and uncontrollable expenses, and asset residual values. In order to calculate the present value of those future cash flows, the Company discounted cash flow estimates at a rate commensurate with the risk that selected market participants would assign to the cash flows. In general, the selected market participants represented a group of other retailers with a location footprint similar in size to the Company's. Any impairment identified is included in SG&A expense in the accompanying consolidated statements of earnings.

During the three months ended November 1, 2019, the Company began a strategic review of its Canadian operations, and it was determined to be more likely than not the assets associated with certain Canadian stores would be sold or otherwise disposed of significantly before the end of their previously estimated useful lives, and therefore, these assets experienced a triggering event and were evaluated for recoverability. Based on this evaluation, certain long-lived assets were written down to their fair value of $40 million resulting in impairment charges of $53 million.

As part of a strategic reassessment of Orchard Supply Hardware (Orchard), during the three months ended August 3, 2018, it was determined to be more likely than not the assets of Orchard would be sold or otherwise disposed of significantly before the end of their previously estimated useful lives, and therefore, these assets experienced a triggering event and were evaluated for recoverability. Operating locations evaluated for recoverability included all Orchard stores, as well as a distribution facility that services the Orchard stores and a corporate facility. Based on this evaluation of Orchard, certain long-lived assets, including tangible and intangible assets, were written down to their fair value of $284 million resulting in impairment charges of $206 million.

During the three months ended November 2, 2018, the company committed to closing 20 U.S. home improvement stores and 31 locations in Canada, including 27 stores, as well as exiting certain non-core activities within its U.S. home improvement business. As a result of these decisions, the related assets experienced a triggering event and were evaluated for recoverability. Based on this evaluation, certain long-lived assets were written down to their fair value of $81 million resulting in impairment charges of $99 million.

In addition, during the three months ended November 2, 2018, it was determined to be more likely than not that the assets of the Mexico operations would be sold or otherwise disposed of significantly before the end of their previously estimated useful lives, and therefore, these assets experienced a triggering event and were evaluated for recoverability. Locations evaluated for recoverability included all 13 stores in Mexico, as well as a corporate facility. Based on this evaluation of the Mexico operations, certain long-lived assets were written down to their fair value of $107 million resulting in impairment charges of $22 million.

Assets held for sale
During the three months ended February 1, 2019, the Company committed to a plan to exit its Mexico operations and began marketing the operations to potential acquirers. In addition, as of February 1, 2019, the Company determined that the held-for sale criteria were met and measured the assets, including currency translation adjustments, of the Mexico operations at fair value less costs to sell of $79 million, resulting in an additional impairment charge of $222 million. The fair value of the Mexico operations was determined using a probability weighted approach of discounted cash flow and market multiple analyses and included management assumptions regarding expected sales growth, margin expansion, operational leverage, capital expenditures, and overall operational forecasts. The Company classified this fair value measurement as Level 3. These non-cash impairment charges are included in SG&A expense in the accompanying consolidated statements of earnings.

See Note 8 for additional information regarding the Company's decisions to exit its Orchard and Mexico operations and certain U.S. and Canada locations during fiscal year 2018 as part of the Company's strategic reassessment of the business, as well as the Company's strategic review of its Canadian operations in fiscal year 2019.

The following table presents the Company's assets measured at estimated fair value on a nonrecurring basis and the resulting impairment losses included in earnings, excluding costs to sell for excess properties held-for-sale. Because these assets subject to impairment were not measured at fair value on a recurring basis, certain fair value measurements presented in the table may reflect values at earlier measurement dates and may no longer represent the fair values at January 31, 2020.

Fair Value Measurements - Nonrecurring Basis

	January 31, 2020		February 1, 2019	
(In millions)	Fair Value Measurements	Impairment Losses	Fair Value Measurements	Impairment Losses
Assets-held-for-use:				
Operating locations	$ 46	$ (62)	$ 473	$ (331)
Assets-held-for-sale:				
Mexico operating locations	—	—	79	(222)
Goodwill (Note 1)	—	—	2,851	(952)
Total	**$ 46**	**$ (62)**	**$ 3,403**	**$ (1,505)**

Fair Value of Financial Instruments

The Company's financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, short-term borrowings, and long-term debt and are reflected in the financial statements at cost. With the exception of long-term debt, cost approximates fair value for these items due to their short-term nature. The fair values of the Company's unsecured notes were estimated using quoted market prices. The fair values of the Company's mortgage notes were estimated using discounted cash flow analyses, based on the future cash outflows associated with these arrangements and discounted using the applicable incremental borrowing rate.

Carrying amounts and the related estimated fair value of the Company's long-term debt, excluding finance and capitalized lease obligations, are as follows:

	January 31, 2020		February 1, 2019	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Unsecured notes (Level 1)	$ 16,648	$ 18,808	$ 14,721	$ 14,473
Mortgage notes (Level 2)	5	6	6	6
Long-term debt (excluding finance and capitalized lease obligations)	**$ 16,653**	**$ 18,814**	**$ 14,727**	**$ 14,479**

NOTE 7: Property and Accumulated Depreciation

Property is summarized by major class in the following table:

(In millions)	Estimated Depreciable Lives, In Years	January 31, 2020	February 1, 2019
Cost:			
Land	N/A	$ 7,200	$ 7,196
Buildings and building improvements	5-40	17,862	18,052
Equipment	2-15	10,377	10,090
Construction in progress	N/A	506	525
Total cost		**35,945**	**35,863**
Accumulated depreciation		(17,276)	(17,431)
Property, less accumulated depreciation		**$ 18,669**	**$ 18,432**

As of January 31, 2020, subsequent to the adoption of ASU 2016-02, *Leases (Topic 842)*, included in net property are assets under finance lease of $597 million less accumulated depreciation of $42 million. As of February 1, 2019, included in net property are assets under capital lease of $665 million less accumulated depreciation of $244 million. The related amortization expense for assets under finance and capital leases are included in depreciation expense. The Company recognized depreciation expense, inclusive of amounts presented in cost of sales and depreciation and amortization, of $1.4 billion in 2019 and $1.6 billion in 2018 and $1.5 billion in 2017.

NOTE 8: Exit Activities

During fiscal years 2019 and 2018, the Company has incurred costs associated with an ongoing strategic reassessment of its business to drive an increased focus on its core home improvement operations and to improve overall operating performance and profitability. As a result of this reassessment, the Company decided to exit certain activities and close certain locations as further described below. Expenses associated with long-lived asset impairment, discontinued projects, severance, and lease obligations, are included in SG&A expense in the consolidated statements of earnings. Expenses associated with accelerated depreciation are included in depreciation and amortization expense in the consolidated statements of earnings. Inventory adjustments to net realizable value are included in cost of sales in the consolidated statements of earnings.

2019 Canada Restructuring

During the third quarter of fiscal 2019, the Company began a strategic review of its Canadian operations, and as a result, recognized pre-tax charges of $53 million associated with long-lived asset impairment. Subsequent to the end of the Company's third quarter of fiscal 2019, a decision was made to close 34 under-performing stores in Canada and take additional restructuring actions to improve future sales and profitability of the Canadian operations. A summary of the significant charges associated with the 2019 strategic review of the Canadian operations, are as follows:

(In millions)		**Year Ended January 31, 2020**
Long-lived asset impairment		53
Accelerated depreciation and amortization		23
Severance costs		17
Other closing costs		15
Total	**$**	**108**

Orchard Supply Hardware (Orchard)

On August 17, 2018, the Company approved plans to exit its Orchard operations by closing all 99 Orchard stores, which are located in California, Oregon and Florida, as well as the distribution facility that services the Orchard stores, and the Orchard corporate office. All facilities were closed by the end of fiscal year 2018. A summary of the significant charges associated with the exit of the Orchard operations is as follows:

(In millions)		**Year Ended February 1, 2019**
Lease obligation costs for closed locations	$	217
Long-lived asset impairment		206
Accelerated depreciation and amortization		103
Discontinued project write-offs		24
Severance costs		11
Total	**$**	**561**

U.S. and Canada Location Closings

On October 31, 2018, the Company committed to closing 20 U.S. home improvement stores and 31 locations in Canada, including 27 stores. The store closings were completed in the fourth quarter of fiscal 2018. A summary of the significant charges associated with the closure of these stores is as follows:

(In millions)		Year Ended February 1, 2019
Long-lived asset impairment	$	90
Lease obligation costs for closed locations		89
Accelerated depreciation and amortization		50
Severance costs		32
Discontinued project write-offs		10
Total	**$**	**271**

Mexico Operations

On November 9, 2018, management and the Board of Directors decided to pursue an exit of the Company's Mexico operations. A summary of the significant charges incurred as a result of the exit of the Company's Mexico operations is as follows:

(In millions)		Year Ended February 1, 2019
Long-lived asset impairment	$	244
Total	**$**	**244**

Other Non-Core Activities

During the third quarter ended November 2, 2018, the Company decided to pursue an exit of certain non-core activities within its U.S. home improvement business. A summary of the significant charges incurred as a result of these decisions is as follows:

(In millions)		Year Ended February 1, 2019
Other closing costs	$	34
Severance costs		16
Long-lived asset impairment		9
Total	**$**	**59**

Prior to the adoption of ASU 2016-02, *Leases (Topic 842)*, as of February 2, 2019, when locations under operating leases were closed, a liability was recognized for the fair value of future contractual obligations, including future minimum lease payments, property taxes, utilities, common area maintenance, and other ongoing expenses, net of estimated sublease income and other recoverable items. Subsequent changes to the liabilities, including a change resulting from a revision to either the timing or the amount of estimated cash flows, were recognized in the period of change.

The following table summarizes store closing lease obligations activity during the twelve months ended January 31, 2020 and February 1, 2019:

(In millions)		Lease obligations
Accrual for exit activities, balance at February 2, 2018	**$**	**60**
Additions to the accrual - net		365
Cash payments		(86)
Adjustments [1]		22
Accrual for exit activities, balance at February 1, 2019	**$**	**361**
ASU 2016-02 adoption impact [2]		(168)
Cash payments		(43)
Adjustments [1]		(62)
Accrual for exit activities, balance at January 31, 2020	**$**	**88**

[1] *Adjustments represents lease terminations and changes in estimates around sublease assumptions.*

[2] *Upon adoption of ASU 2016-02, Leases (Topic 842), rent liabilities previously recognized in connection with leases were included in the determination of right-of-use assets at transition.*

NOTE 9: Short-Term Borrowings

In January 2020, the Company entered into a $1.0 billion unsecured 364-day term loan facility (the Term Loan). The Company must repay the aggregate principal amount of loans outstanding under the Term Loan on the maturity date in effect at such time (currently December 31, 2020). Borrowings under the Term Loan will bear interest, at the Company’s option, calculated according to a base rate or a Eurocurrency rate, as the case may be, plus an applicable rate. The applicable rate on a base rate loan is 0.000%, and the applicable rate on a Eurocurrency rate loan is 0.625%. The Term Loan contains customary representations, warranties and covenants for a transaction of this type. The Company was in compliance with those covenants at January 31, 2020. Outstanding borrowings under the Term Loan were $1.0 billion, with a weighted average interest rate of 2.29%, as of January 31, 2020.

In September 2019, the Company entered into a $250 million unsecured 364-day credit agreement (the 2019 Credit Agreement) with a syndicate of banks. The Company may request borrowings under the 2019 Credit Agreement that are denominated in U.S. Dollar, Euro, Sterling, Canadian Dollar and other currencies approved by the administrative agent and the lenders. The Company must repay the aggregate principal amount of loans outstanding under the 2019 Credit Agreement on the termination date in effect at such time (currently September 7, 2020). The Company may elect to convert all of the loans outstanding under the 2019 Credit Agreement on the termination date into a term loan which the Company shall repay in full on the first anniversary date of the termination date. Borrowings under the 2019 Credit Agreement will bear interest calculated according to a base rate or a Eurocurrency rate plus an applicable margin. The 2019 Credit Agreement contains customary representations, warranties and covenants for a transaction of this type. The Company was in compliance with those covenants at January 31, 2020.

In September 2018, the Company entered into a $1.75 billion five-year unsecured revolving second amended and restated credit agreement (the Second Amended and Restated Credit Agreement) with a syndicate of banks. The Second Amended and Restated Credit Agreement amends and restates the Company’s amended and restated credit agreement, dated November 23, 2016 (the Amended and Restated Credit Agreement), to among other things (i) extend the maturity date of the revolving credit facility to September 2023 and (ii) modify the revolving commitments of the existing lenders. The Company may request borrowings under the Second Amended and Restated Credit Agreement that are denominated in U.S. Dollar, Euro, Sterling, Canadian Dollar and other currencies approved by the administrative agent and the lenders. Borrowings under the Second Amended and Restated Credit Agreement will bear interest calculated according to a base rate or a Eurocurrency rate, plus an applicable margin.

In January 2019, the Company increased the aggregate availability under the Second Amended and Restated Credit Agreement by $230 million for a total of $1.98 billion available. Subject to obtaining commitments from the lenders and satisfying other conditions specified in the Second Amended and Restated Credit Agreement, the Company may increase the aggregate availability by an additional $270 million. The Second Amended and Restated Credit

Agreement contains customary representations, warranties, and covenants for a transaction of this type. The Company was in compliance with those covenants at January 31, 2020.

In addition, during September 2018, the Company entered into a $250 million unsecured 364-day credit agreement (the 2018 Credit Agreement) with a syndicate of banks. The Company may request borrowings under the 2018 Credit Agreement that are denominated in U.S. Dollar, Euro, Sterling, Canadian Dollar and other currencies approved by the administrative agent and the lenders. The Company must repay the aggregate principal amount of loans outstanding under the 2018 Credit Agreement on the termination date in effect at such time (currently September 9, 2019). The Company may elect to convert all of the loans outstanding under the 2018 Credit Agreement on the termination date into a term loan which the Company shall repay in full on the first anniversary date of the termination date. Borrowings under the 2018 Credit Agreement will bear interest calculated according to a base rate or a Eurocurrency rate plus an applicable margin.

The Second Amended and Restated Credit Agreement and the 2019 and 2018 Credit Agreements (collectively, Credit Agreements) support the Company's commercial paper program in their respective years. The amount available to be drawn under the Second Amended and Restated Credit Agreement and the Credit Agreements is reduced by the amount of borrowings under our commercial paper program. Outstanding borrowings under the Company's commercial paper program were $941 million, with a weighted average interest rate of 2.10%, as of January 31, 2020, and $722 million, with a weighted average interest rate of 2.81%, as of February 1, 2019. There were no outstanding borrowings under the Second Amended and Restated Credit Agreement or the Credit Agreements as of January 31, 2020. There were no outstanding borrowings under the Amended and Restated Credit Agreement as of February 1, 2019. The weighted average interest rate of total short-term borrowings was 2.14% and 2.81% as of January 31, 2020 and February 1, 2019, respectively.

NOTE 10: Long-Term Debt

Debt Category (In millions)	**Weighted-Average Interest Rate at January 31, 2020**	**January 31, 2020**	**February 1, 2019**
Secured debt:			
Mortgage notes due through fiscal 2027 [1]	5.23 %	$ 5	$ 6
Unsecured debt:			
Notes due through fiscal 2024	3.70 %	3,232	4,278
Notes due fiscal 2025-2029	3.57 %	5,749	4,256
Notes due fiscal 2035-2039	5.96 %	897	897
Notes due fiscal 2040-2044	4.82 %	1,757	1,757
Notes due fiscal 2045-2049	3.89 %	5,013	3,533
Finance or capitalized lease obligations due through fiscal 2037		712	774
Total long-term debt		**17,365**	**15,501**
Less current maturities		(597)	(1,110)
Long-term debt, excluding current maturities		**$ 16,768**	**$ 14,391**

1 *Real properties with an aggregate book value of $16 million were pledged as collateral at January 31, 2020, for secured debt.*

Debt maturities, exclusive of unamortized original issue discounts, unamortized debt issuance costs, and capitalized lease obligations, for the next five years and thereafter are as follows: 2020, $500 million; 2021, $1.0 billion; 2022, $765 million; 2023, $500 million; 2024, $450 million; thereafter, $13.6 billion.

The Company's unsecured notes are issued under indentures that generally have similar terms and, therefore, have been grouped by maturity date for presentation purposes in the table above. The notes contain certain restrictive covenants, none of which are expected to impact the Company's capital resources or liquidity. The Company was in compliance with all covenants of these agreements at January 31, 2020.

During 2019, the Company issued $3.0 billion of unsecured notes as follows:

Issue Date	**Maturity Date**	**Fixed vs. Floating**	**Interest Rate**	**Discount (in millions)**

	Principal Amount (in millions)						
April 2019	$	1,500	April 2029	Fixed	3.650%	$	9
April 2019	$	1,500	April 2049	Fixed	4.550%	$	19

Interest on the notes issued in 2019 is payable semiannually in arrears in April and October of each year until maturity.

The indentures governing the notes issued in 2019 and 2017 contain a provision that allows the Company to redeem these notes at any time, in whole or in part, at specified redemption prices, plus accrued interest, if any, up to the date of redemption. The indentures also contain a provision that allows the holders of the notes to require the Company to repurchase all or any part of their notes if a change of control triggering event occurs. If elected under the change of control provisions, the repurchase of the notes will occur at a purchase price of 101% of the principal amount, plus accrued interest, if any, on such notes up to the date of purchase. The indentures governing the notes do not limit the aggregate principal amount of debt securities that the Company may issue and do not require the Company to maintain specified financial ratios or levels of net worth or liquidity. However, the indentures include various restrictive covenants, none of which is expected to impact the Company's liquidity or capital resources.

Unsecured notes issued during 2017 were as follows:

Issue Date	Principal Amount (in millions)	Maturity Date	Fixed vs. Floating	Interest Rate	Discount (in millions)
May 2017	$ 1,500	May 2027	Fixed	3.100%	$ 9
May 2017	$ 1,500	May 2047	Fixed	4.050%	$ 23

Interest on the notes issued in 2017 is payable semiannually in arrears in May and November of each year until maturity.

The discounts associated with these issuances, which include the underwriting and issuance discounts, are recorded in long-term debt and are being amortized over the respective terms of the notes using the effective interest method.

During 2017, the Company completed a cash tender offer to purchase and retire $1.6 billion combined aggregate principal amount of its outstanding notes and recognized a loss on extinguishment of debt of $464 million.

Occasionally, the Company will utilize derivative financial instruments to hedge its exposure to changes in benchmark interest rates. As of January 31, 2020, the Company held forward interest rate swaps with notional amounts totaling $770 million. The fair value of these instruments was not material as of January 31, 2020.

NOTE 11: Shareholders' Equity

Authorized shares of preferred stock were 5.0 million ($5 par value) at January 31, 2020 and February 1, 2019, none of which have been issued. The Board of Directors may issue the preferred stock (without action by shareholders) in one or more series, having such voting rights, dividend and liquidation preferences, and such conversion and other rights as may be designated by the Board of Directors at the time of issuance.

Authorized shares of common stock were 5.6 billion ($0.50 par value) at January 31, 2020 and February 1, 2019.

The Company has a share repurchase program that is executed through purchases made from time to time either in the open market or through private off-market transactions. Shares purchased under the repurchase program are retired and returned to authorized and unissued status. On December 12, 2018, the Company's Board of Directors authorized a $10.0 billion share repurchase under the program with no expiration, which was announced the same day. As of January 31, 2020, the Company had $9.7 billion remaining under the program.

During the year ended January 31, 2020, the Company entered into Accelerated Share Repurchase (ASR) agreements with third-party financial institutions to repurchase a total of 17.2 million shares of the Company's common stock for $1.7 billion. At inception, the Company paid the financial institutions using cash on hand and took initial delivery of shares. Under the terms of the ASR agreements, upon settlement, the Company would either receive additional shares from the financial institution or be required to deliver additional shares or cash to the financial institution. The Company controlled its election to either deliver additional shares or cash to the financial institution and was subject to provisions which limited the number of shares the Company would be required to deliver.

The final number of shares received upon settlement of each ASR agreement was determined with reference to the volume-weighted average price of the Company's common stock over the term of the ASR agreement. The initial repurchase of shares under these agreements resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings per share.

Table of Contents

These ASR agreements were accounted for as treasury stock transactions and forward stock purchase contracts. The par value of the shares received was recorded as a reduction to common stock with the remainder recorded as a reduction to capital in excess of par value and retained earnings. The forward stock purchase contracts were considered indexed to the Company's own stock and were classified as equity instruments.

The terms of each ASR agreement entered into during the last three fiscal years, structured as outlined above, follow (in millions):

Agreement Execution Date	ASR Settlement Date	ASR Agreement Amount	Minimum Notional Amount[1]	Maximum Notional Amount[1]	Cash Payment Received at Settlement[1]	Initial Shares Delivered	Additional Shares Delivered at Settlement	Total Shares Delivered
Q1 2017	Q1 2017	$ 500	$ —	$ —	$ —	5.3	0.8	6.1
Q2 2017	Q2 2017	500	—	—	—	5.2	1.2	6.4
Q3 2017	Q3 2017	250	—	—	—	2.9	0.3	3.2
Q2 2018	Q2 2018	550	—	—	—	4.8	0.8	5.6
Q3 2018	Q3 2018	310	—	—	—	2.5	0.3	2.8
Q4 2018	Q1 2019	270	—	—	—	2.6	0.3	2.9
Q1 2019	Q1 2019	350	350	500	150	2.9	0.3	3.2
Q2 2019	Q2 2019	990	990	1,410	420	8.9	1.0	9.9
Q3 2019	Q3 2019	397	350	500	103	2.8	0.8	3.6

[1] *The Company entered into variable notional ASR agreements with third-party financial institutions to repurchase between a minimum notional amount and a maximum notional amount. At inception of each transaction, the Company paid the maximum notional amount and received shares. When the Company finalized each transaction, it received additional shares as well as a cash payment from the third-party financial institution equal to the difference between the prepayment amount (maximum notional amount) and the final notional amount.*

During the year ended January 31, 2020, the Company also repurchased shares of its common stock through the open market totaling 23.8 million shares for a cost of $2.6 billion.

The Company also withholds shares from employees to satisfy either the exercise price of stock options exercised or the statutory withholding tax liability resulting from the vesting of restricted stock awards and performance share units.

Shares repurchased for 2019, 2018 and 2017 were as follows:

	2019		2018		2017	
(In millions)	Shares	Cost [1]	Shares	Cost [1]	Shares	Cost [1]
Share repurchase program	41.0	$ 4,288	31.2	$ 2,999	39.1	$ 3,133
Shares withheld from employees	0.3	37	0.5	46	0.5	41
Total share repurchases	**41.3**	**$ 4,325**	**31.7**	**$ 3,045**	**39.6**	**$ 3,174**

[1] *Reductions of $4.1 billion, $2.8 billion, and $2.9 billion were recorded to retained earnings, after capital in excess of par value was depleted, for 2019, 2018, and 2017, respectively.*

NOTE 12: Accounting for Share-Based Payments

Overview of Share-Based Payment Plans

The Company has a number of active and inactive equity incentive plans (the Incentive Plans) under which the Company has been authorized to grant share-based awards to key employees and non-employee directors. The

Company also has an employee stock purchase plan (the ESPP) that allows employees to purchase Company shares at a discount through payroll deductions. All of these plans contain a non-discretionary anti-dilution provision that is designed to equalize the value of an award as a result of any stock dividend, stock split, recapitalization, or any other similar equity restructuring.

A total of 199.0 million shares have been previously authorized for grant to key employees and non-employee directors under all of the Company's Incentive Plans, but only 80.0 million of those shares were authorized for grants of share-based awards under the Company's currently active Incentive Plans. In addition, a total of 70.0 million shares have been previously authorized for purchases by employees participating in the ESPP.

At January 31, 2020, there were 30.6 million shares remaining available for grants under the currently active Incentive Plans and 20.2 million shares remaining available for purchases under the ESPP.

The Company recognized share-based payment expense within SG&A expense in the consolidated statements of earnings of $98 million, $74 million, and $99 million in 2019, 2018, and 2017 respectively. The total associated income tax benefit recognized was $15 million, $15 million and $31 million in 2019, 2018 and 2017, respectively.

Total unrecognized share-based payment expense for all share-based payment plans was $169 million at January 31, 2020, of which $83 million will be recognized in 2020, $71 million in 2021 and $15 million thereafter. This results in these amounts being recognized over a weighted-average period of 2.7 years.

For all share-based payment awards, the expense recognized has been adjusted for estimated forfeitures where the requisite service is not expected to be provided. Estimated forfeiture rates are developed based on the Company's analysis of historical forfeiture data for homogeneous employee groups.

General terms and methods of valuation for the Company's share-based awards are as follows:

Stock Options

Stock options have terms of seven or 10 years, with one-third of each grant vesting each year for three years, and are assigned an exercise price equal to the closing market price of a share of the Company's common stock on the date of grant. Options are expensed on a straight-line basis over the grant vesting period, which is considered to be the requisite service period.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. When determining expected volatility, the Company considers the historical volatility of the Company's stock price, as well as implied volatility. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant, based on the options' expected term. The expected term of the options is based on the Company's evaluation of option holders' exercise patterns and represents the period of time that options are expected to remain unexercised. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted average assumptions used in the Black-Scholes option-pricing model and weighted-average grant date fair value for options granted in 2019, 2018, and 2017 are as follows:

	2019	2018	2017
Weighted-average assumptions used:			
Expected volatility	23.0 %	23.3 %	23.6 %
Dividend yield	1.73 %	1.71 %	1.68 %
Risk-free interest rate	2.28 %	2.71 %	2.14 %
Expected term, in years	6.38	6.58	6.43
Weighted-average grant date fair value	$ 23.66	$ 21.12	$ 18.30

The total intrinsic value of options exercised, representing the difference between the exercise price and the market price on the date of exercise, was approximately $44 million, $36 million, and $77 million in 2019, 2018, and 2017, respectively.

Table of Contents

Transactions related to stock options for the fiscal year ended January 31, 2020 are summarized as follows:

	Shares (In thousands)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at February 1, 2019	2,691	$ 70.87		
Granted	683	108.95		
Canceled, forfeited or expired	(189)	95.79		
Exercised	(842)	54.04		
Outstanding at January 31, 2020	2,343	$ 86.01	7.42	$ 70,977
Vested and expected to vest at January 31, 2020[1]	2,263	$ 85.29	7.36	$ 70,136
Exercisable at January 31, 2020	1,287	$ 72.86	6.28	$ 55,834

[1] *Includes outstanding vested options as well as outstanding nonvested options after a forfeiture rate is applied.*

Restricted Stock Awards

Restricted stock awards are valued at the market price of a share of the Company's common stock on the date of grant. In general, these awards vest at the end of a three-year period from the date of grant. Beginning in fiscal 2019, certain awards vest 50% at the end of a two-year period from the date of grant and 50% at the end of a three-year period from the date of grant. All awards are expensed on a straight-line basis over a three-year period, which is considered to be the requisite service period. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted-average grant-date fair value per share of restricted stock awards granted was $109.04, $86.99, and $82.41 in 2019, 2018, and 2017, respectively. The total fair value of restricted stock awards vesting was approximately $64 million, $85 million, and $71 million in 2019, 2018, and 2017, respectively.

Transactions related to restricted stock awards for the fiscal year ended January 31, 2020 are summarized as follows:

	Shares (In thousands)	Weighted-Average Grant-Date Fair Value Per Share
Nonvested at February 1, 2019	1,790	$ 81.16
Granted	1,136	109.04
Vested	(570)	72.26
Canceled or forfeited	(359)	90.86
Nonvested at January 31, 2020	1,997	$ 97.81

Deferred Stock Units

Deferred stock units are valued at the market price of a share of the Company's common stock on the date of grant. For non-employee Directors, these awards vest immediately and are expensed on the grant date. During 2019, 2018, and 2017, each non-employee Director was awarded a number of deferred stock units determined by dividing the annual award amount by the fair market value of a share of the Company's common stock on the award date and rounding up to the next 100 units. The annual award amount used to determine the number of deferred stock units granted to each Director was $175,000 for 2019, 2018 and 2017. During 2018, the Company appointed a new Chairman of the Board who received an additional grant of deferred stock units. The award amount used to determine the additional units granted was $140,000. During 2019, 22,500 deferred stock units were granted and immediately vested for non-employee Directors. The weighted-average grant-date fair value per share of deferred stock units granted was $93.28, $95.83, and $80.22 in 2019, 2018, and 2017, respectively. The total fair value of deferred stock units vested was $2 million, $2 million, and $2 million in 2019, 2018, and 2017, respectively. At January 31, 2020, there were 0.1 million deferred stock units outstanding, all of which were vested.

Table of Contents

Performance Share Units

The Company issues performance share units classified as equity awards. Expense is recognized on a straight-line basis over the requisite service period, based on the probability of achieving the performance condition, with changes in expectations recognized as an adjustment to earnings in the period of the change. Compensation cost is not recognized for performance share units that do not vest because service or performance conditions are not satisfied, and any previously recognized compensation cost is reversed. Performance share units do not have dividend rights. The Company uses historical data to estimate the timing and amount of forfeitures.

The Company's performance share units are classified as equity and contain performance and service conditions that must be satisfied for an employee to earn the right to benefit from the award. For awards issued in fiscal 2019, the performance condition is primarily based on the achievement of the Company's target return on invested capital (ROIC). For awards issued prior to fiscal 2019, the performance condition is primarily based on the achievement of the Company's target return on non-cash average assets (RONCAA). These awards are valued at the market price of a share of the Company's common stock on the date of grant less the present value of dividends expected during the requisite service period.

In fiscal 2016, the Company began issuing performance share units that contain a market condition modifier, in addition to having a performance and service condition. The performance condition for these awards continues to be based primarily on the achievement of the Company's ROIC or RONCAA targets. The market condition is based on the Company's total shareholder return (TSR) compared to the median TSR of companies listed in the S&P 500 Index over a three year performance period. The Company used a Monte-Carlo simulation to determine the grant date fair value for these awards, which takes into consideration the possible outcomes pertaining to the TSR market condition. The weighted-average assumptions used in the Monte Carlo simulations for these awards granted in 2019 and 2018 are as follows:

	2019	**2018**
Weighted-average assumptions used:		
Expected volatility	24.1 %	22.8 %
Dividend yield	1.89 %	1.77 %
Risk-free interest rate	2.28 %	2.36 %
Expected term, in years	2.84	2.81

In general, 0% to 200% of the Company's performance share units vest at the end of a three year service period from the date of grant based upon achievement of the performance condition, or a combination of the performance and market conditions, specified in the performance share unit agreement.

The weighted-average grant-date fair value per unit of performance share units classified as equity awards granted was $115.93, $82.22, and $91.50 in 2019, 2018, and 2017, respectively. The total fair value of performance share units vesting was approximately $19 million, $13 million, and $31 million in 2019, 2018, and 2017, respectively.

Transactions related to performance share units classified as equity awards for the fiscal year ended January 31, 2020 are summarized as follows:

	Units (In thousands)[1]	**Weighted-Average Grant-Date Fair Value Per Unit**
Nonvested at February 1, 2019	613	$ 83.83
Granted	249	115.93
Vested	(171)	77.75
Canceled or forfeited	(122)	92.50
Nonvested at January 31, 2020	569	$ 97.86

1

The number of units presented is based on achieving the targeted performance goals as defined in the performance share unit agreements. As of January 31, 2020, the maximum number of nonvested units that could vest under the provisions of the agreements was 0.7 million for the RONCAA awards and 0.4 million for the ROIC awards.

Restricted Stock Units

Restricted stock units do not have dividend rights and are valued at the market price of a share of the Company's common stock on the date of grant less the present value of dividends expected during the requisite service period. In general, these awards vest at the end of a three-year period from the date of grant. Beginning in fiscal 2019, certain awards vest 50% at the end of a two-year period from the date of grant and 50% at the end of a three-year period from the date of grant. All awards are expensed on a straight-line basis over that period, which is considered to be the requisite service period. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted-average grant-date fair value per share of restricted stock units granted was $103.40, $80.32, and $75.44 in 2019, 2018, and 2017, respectively. The total fair value of restricted stock units vesting was approximately $9 million, $7 million, and $6 million in 2019, 2018, and 2017, respectively.

Transactions related to restricted stock units for the fiscal year ended January 31, 2020 are summarized as follows:

	Shares (In thousands)	Weighted-Average Grant-Date Fair Value Per Share
Nonvested at February 1, 2019	329	$ 74.95
Granted	452	103.40
Vested	(82)	67.62
Canceled or forfeited	(193)	88.57
Nonvested at January 31, 2020	506	$ 96.39

ESPP

The purchase price of the shares under the ESPP equals 85% of the closing price on the date of purchase. The Company's share-based payment expense per share is equal to 15% of the closing price on the date of purchase. The ESPP is considered a liability award and is measured at fair value at each reporting date, and the share-based payment expense is recognized over the six-month offering period. The Company issued 0.8 million shares of common stock in 2019, 0.9 million shares of common stock in 2018, and 1.1 million shares of common stock in 2017 and recognized $13 million of share-based payment expense pursuant to the plan in 2019, 2018 and 2017.

NOTE 13: Employee Retirement Plans

The Company maintains a defined contribution retirement plan for eligible employees (the 401(k) Plan). Eligible employees may participate in the 401(k) Plan thirty days after their original date of service. Eligible employees hired or rehired prior to November 1, 2012, were automatically enrolled in the 401(k) Plan at a contribution rate of 1% of their pre-tax annual compensation unless they elected otherwise. Eligible employees hired or rehired November 1, 2012, or later must make an active election to participate in the 401(k) Plan. The Company makes contributions to the 401(k) Plan each payroll period, based upon a matching formula applied to employee deferrals (the Company Match). Participants are eligible to receive the Company Match pursuant to the terms of the 401(k) Plan. The Company Match varies based on how much the employee elects to defer up to a maximum of 4.25% of eligible compensation. The Company Match is invested identically to employee contributions and is immediately vested.

The Company maintains a Benefit Restoration Plan to supplement benefits provided under the 401(k) Plan to participants whose benefits are restricted as a result of certain provisions of the Internal Revenue Code of 1986. This plan provides for employee salary deferrals and employer contributions in the form of a Company Match.

The Company maintains a non-qualified deferred compensation program called the Lowe's Cash Deferral Plan. This plan is designed to permit certain employees to defer receipt of portions of their compensation, thereby delaying taxation on the deferral amount and on subsequent earnings until the balance is distributed. This plan does not provide for Company contributions.

The Company recognized expense associated with these employee retirement plans of $175 million, $164 million, and $174 million in 2019, 2018, and 2017, respectively.

NOTE 14: Income Taxes

The following is a reconciliation of the federal statutory tax rate to the effective tax rate:

	2019	2018	2017
Statutory federal income tax rate [1]	21.0 %	21.0 %	33.7 %
State income taxes, net of federal tax benefit	4.1	4.8	2.9
Valuation allowance	1.3	—	(0.6)
Goodwill impairment	—	5.5	—
Mexico impairment	(1.4)	1.5	—
Other, net	(1.1)	(1.0)	1.2
Effective tax rate	**23.9 %**	**31.8 %**	**37.2 %**

1 *The Company utilized a blended rate in 2017 due to the Tax Cuts and Job Act enacted on December 22, 2017.*

The components of the income tax provision are as follows:

(In millions)	2019	2018	2017
Current:			
Federal	$ 935	$ 963	$ 1,734
State	268	274	252
Total current [1]	**1,203**	**1,237**	**1,986**
Deferred:			
Federal	121	(102)	60
State	18	(55)	(4)
Total deferred [1]	**139**	**(157)**	**56**
Total income tax provision	**$ 1,342**	**$ 1,080**	**$ 2,042**

1 *Amounts applicable to foreign income taxes were insignificant for all periods presented.*

The tax effects of cumulative temporary differences that gave rise to the deferred tax assets and liabilities were as follows:

(In millions)	January 31, 2020	February 1, 2019
Deferred tax assets:		
Self-insurance	$ 260	$ 252
Share-based payment expense	30	31
Deferred rent	—	58
Operating lease liabilities	1,377	—
Mexico impairment	—	74
Capital loss carryforwards	225	223
Net operating losses	273	239
Other, net	131	119
Total deferred tax assets	**2,296**	**996**
Valuation allowance	(561)	(569)
Net deferred tax assets	**1,735**	**427**
Deferred tax liabilities:		
Operating lease assets	(1,198)	—
Property	(293)	(76)
Other, net	(28)	(57)
Total deferred tax liabilities	**(1,519)**	**(133)**
Net deferred tax asset	**$ 216**	**$ 294**

As of January 31, 2020, the Company reported a deferred tax asset of $225 million, for the capital loss realized in 2017 for U.S. federal income tax purposes related to the exit from the Company's joint venture investment in Australia. Since no present or future capital gains have been identified through which the asset can be realized, the Company has a full valuation allowance against the deferred tax asset. For U.S. federal tax purposes, this loss has a five-year carryforward period expiring at the end of fiscal 2022.

As of January 31, 2020, the Company established a valuation allowance for RONA's Canadian net deferred tax assets of $72 million. This was a result of management's assessment of the available positive and negative evidence to estimate the realization of this entity's existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended January 31, 2020. The amount of the deferred tax asset considered realizable, however, could be adjusted if objective negative evidence in the form of cumulative losses is no longer present or if estimates of future taxable income are increased.

The Company operates as a branch in various foreign jurisdictions and cumulatively has incurred net operating losses of $738 million and $800 million as of January 31, 2020, and February 1, 2019, respectively. These net operating losses are subject to expiration in 2026 through 2039. Deferred tax assets have been established for these foreign net operating losses in the accompanying consolidated balance sheets. Given the uncertainty regarding the realization of the foreign net deferred tax assets, the Company recorded cumulative valuation allowances of $246 million and $331 million as of January 31, 2020, and February 1, 2019, respectively.

A reconciliation of the beginning and ending balances of unrecognized tax benefits is as follows:

(In millions)	2019	2018	2017
Unrecognized tax benefits, beginning of year	$ 10	$ —	$ 6
Additions for tax positions of prior years	2	10	—
Reductions for tax positions of prior years	(3)	—	(2)
Settlements	(5)	—	(1)
Reductions due to a lapse in applicable statute of limitations	—	—	(3)

Unrecognized tax benefits, end of year	**$ 4**	**$ 10**	**$ —**

The amounts of unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate were $3 million as of January 31, 2020, and $8 million as of February 1, 2019.

The Company recognized an insignificant amount of interest expense in 2019, $3 million of interest expense in 2018, and $3 million of interest income in 2017 related to uncertain tax positions. The Company had $1 million and $3 million of accrued interest related to uncertain tax positions as of January 31, 2020 and February 1, 2019, respectively.

Penalties recognized related to uncertain tax positions were insignificant for 2019, 2018, and 2017. Accrued penalties were also insignificant as of January 31, 2020 and February 1, 2019.

The Company is subject to examination by various foreign and domestic taxing authorities. There are ongoing U.S. state audits covering tax years 2014 to 2018. An audit of the Company’s Canadian operations by the Canada Revenue Agency for fiscal years 2015 and 2016 is on-going. The Company remains subject to income tax examinations for international income taxes for fiscal years 2014 through 2018. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and open years.

Note 15: Earnings Per Share

The Company calculates basic and diluted earnings per common share using the two-class method. Under the two-class method, net earnings are allocated to each class of common stock and participating security as if all of the net earnings for the period had been distributed. The Company’s participating securities consist of share-based payment awards that contain a nonforfeitable right to receive dividends and, therefore, are considered to participate in undistributed earnings with common shareholders.

Basic earnings per common share excludes dilution and is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares as of the balance sheet date, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings per common share for 2019, 2018, and 2017:

(In millions, except per share data)	2019	2018	2017
Basic earnings per common share:			
Net earnings attributable to Lowe's Companies, Inc.	$ 4,281	$ 2,314	$ 3,447
Less: Net earnings allocable to participating securities	(13)	(7)	(11)
Net earnings allocable to common shares, basic	**$ 4,268**	**$ 2,307**	**$ 3,436**
Weighted-average common shares outstanding	**777**	**811**	**839**
Basic earnings per common share	**$ 5.49**	**$ 2.84**	**$ 4.09**
Diluted earnings per common share:			
Net earnings attributable to Lowe's Companies, Inc.	$ 4,281	$ 2,314	$ 3,447
Less: Net earnings allocable to participating securities	(13)	(7)	(11)
Net earnings allocable to common shares, diluted	**$ 4,268**	**$ 2,307**	**$ 3,436**
Weighted-average common shares outstanding	777	811	839
Dilutive effect of non-participating share-based awards	1	1	1
Weighted-average common shares, as adjusted	**778**	**812**	**840**
Diluted earnings per common share	**$ 5.49**	**$ 2.84**	**$ 4.09**

Stock options to purchase 0.9 million, 0.5 million, and 0.5 million shares of common stock for 2019, 2018, and 2017, respectively, were excluded from the computation of diluted earnings per common share because their effect would have been anti-dilutive.

NOTE 16: Commitments and Contingencies

The Company is, from time to time, party to various legal proceedings considered to be in the normal course of business, none of which, individually or in the aggregate, are expected to be material to the Company's financial statements. In evaluating liabilities associated with its various legal proceedings, the Company has accrued for probable liabilities associated with these matters. The amounts accrued were not material to the Company's consolidated financial statements in any of the years presented. Reasonably possible losses for any of the individual legal proceedings which have not been accrued were not material to the Company's consolidated financial statements.

As of January 31, 2020, the Company had non-cancellable commitments of $1.2 billion related to certain marketing and information technology programs, and purchases of merchandise inventory. Payments under these commitments are scheduled to be made as follows: 2020, $723 million; 2021, $367 million; 2022, $73 million; 2023, $11 million; thereafter, $0 million.

At January 31, 2020, the Company held standby and documentary letters of credit issued under banking arrangements which totaled $61 million. The majority of the Company's letters of credit were issued for insurance and construction contracts.

NOTE 17: Related Parties

A member of the Company's Board of Directors also serves on the Board of Directors of a vendor that provides branded consumer packaged goods to the Company. The Company purchased products from this vendor in the amount of $165 million in 2019, $156 million in 2018, and $149 million in 2017. Amounts payable to this vendor were insignificant at January 31, 2020 and February 1, 2019.

The Company's President and Chief Executive Officer also serves on the Board of Directors of a vendor that provides transportation and business services to the Company. The Company purchased services from this vendor in the amount of $117 million in 2019 and $91 million in 2018. Amounts payable to this vendor were insignificant at January 31, 2020. This was not considered a related party relationship in 2017.

NOTE 18: Other Information

Net interest expense is comprised of the following:

(In millions)	2019	2018	2017
Long-term debt	$ 668	$ 582	$ 582
Lease obligations	30	58	56
Interest income	(27)	(28)	(16)
Interest capitalized	(1)	(3)	(5)
Interest on tax uncertainties	—	3	(3)
Other	21	12	19
Interest - net	**$ 691**	**$ 624**	**$ 633**

Supplemental disclosures of cash flow information:

(In millions)	2019	2018	2017
Cash paid for interest, net of amount capitalized	$ 671	$ 635	$ 654
Cash paid for income taxes, net	$ 1,423	$ 1,316	$ 1,673
Non-cash investing and financing activities:			
Non-cash property acquisitions[1]	$ 441	$ 44	$ 97
Cash dividends declared but not paid	$ 420	$ 385	$ 340

[1] *See Note 5 for supplemental cash flow disclosures related to finance and operating leases.*

Sales by product category:

	2019		2018		2017	
(Dollars in millions)	Total Sales	%	Total Sales	%	Total Sales	%
Appliances	$ 9,989	14 %	$ 9,485	13 %	$ 8,687	13 %
Lumber & Building Materials	9,745	14	9,767	14	8,978	13
Seasonal & Outdoor Living	6,890	10	6,669	9	6,479	9
Lawn & Garden	6,459	9	6,133	9	5,905	9
Rough Plumbing & Electrical	6,224	9	6,164	9	5,937	9
Kitchens & Bath	5,433	7	5,582	8	5,576	8
Tools	4,420	6	4,218	6	4,033	6
Millwork	4,192	6	4,050	6	3,975	6
Paint	4,125	6	3,962	6	3,955	6
Flooring	3,877	5	3,898	5	3,964	6
Hardware	3,467	5	3,362	5	3,298	5
Lighting	2,857	4	3,011	4	3,143	5
Décor	2,443	3	2,333	3	2,339	3
Other	2,027	2	2,675	3	2,350	2
Net sales	**$ 72,148**	**100 %**	**$ 71,309**	**100 %**	**$ 68,619**	**100 %**

Note: Product category sales for prior periods have been reclassified to conform to the current year presentation.

NOTE 19: Subsequent Events

COVID-19

On March 11, 2020 the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of the date of this filing, our Lowe’s operated home improvement stores remain open in both the US and Canada, subject to regulated or reduced store hours. We cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact our consolidated financial position, consolidated results of operations, and consolidated cash flows in fiscal 2020.

Credit Agreement

On March 23, 2020, the Company entered into an additional $1.020 billion five-year unsecured revolving credit agreement (the 2020 Credit Agreement) with a syndicate of banks. The Company must repay the aggregate principal amount of loans outstanding under the 2020 Credit Agreement on the termination date in effect at such time (currently March 23, 2025). The Company may request borrowings under the 2020 Credit Agreement that are denominated in U.S. Dollar, Euro, Sterling, Canadian Dollar and other currencies approved by the administrative agent and the lenders. Borrowings under the 2020 Credit Agreement will bear interest calculated according to a base rate or a Eurocurrency rate, plus an applicable margin.

Subject to obtaining commitments from the lenders and satisfying other conditions specified in the 2020 Credit Agreement, the Company may increase the aggregate availability by an additional $250 million. The 2020 Credit Agreement contains customary representations, warranties, and covenants for a transaction of this type.

The 2020 Credit Agreement was used to refinance the 2019 Credit Agreement, as described in Note 9 above, and the Company terminated any commitments under the 2019 Credit Agreement as of March 23, 2020.

The 2020 Credit Agreement, in addition to the Second Amended and Restated Credit Agreement and the Credit Agreements, as defined in Note 9 above, support our commercial paper program in their respective years. The amount available to be drawn under the 2020 Credit Agreement, the Second Amended and Restated Credit Agreement and the Credit Agreements is reduced by the amount of borrowings under our commercial paper program. There were no outstanding borrowings under the 2020 Credit Agreement as of March 23, 2020.

SUPPLEMENTARY DATA

Selected Quarterly Data (UNAUDITED)

The following table summarizes the quarterly consolidated results of operations for 2019 and 2018:

	2019			
(In millions, except per share data)	First [1]	Second [2]	Third [3]	Fourth [4]
Net sales	$ 17,741	$ 20,992	$ 17,388	$ 16,027
Gross margin	5,581	6,740	5,640	4,981
Net earnings	1,046	1,676	1,049	509
Basic earnings per common share	1.31	2.14	1.36	0.67
Diluted earnings per common share	$ 1.31	$ 2.14	$ 1.36	$ 0.66

	2018			
(In millions, except per share data)	First	Second [5]	Third [6]	Fourth [7]
Net sales	$ 17,360	$ 20,888	$ 17,415	$ 15,647
Gross margin	5,748	6,885	5,377	4,898
Net earnings/(loss)	988	1,520	629	(824)
Basic earnings/(loss) per common share	1.19	1.86	0.78	(1.03)
Diluted earnings/(loss) per common share	$ 1.19	$ 1.86	$ 0.78	$ (1.03)

1 *The first quarter of fiscal 2019 includes pre-tax operating losses of $12 million associated with the exit and ongoing wind-down of the Mexico retail operations.*

2 *The second quarter of fiscal 2019 includes pre-tax operating losses of $14 million associated with the exit and ongoing wind-down of the Mexico retail operations.*

3 *The third quarter of fiscal 2019 includes pre-tax charges totaling $53 million related to long-lived asset impairments associated with the Company's strategic review of its Canadian operations, as well as pre-tax operating losses of $9 million associated with the exit and ongoing wind-down of the Mexico retail operations.*

4 *The fourth quarter of fiscal 2019 includes pre-tax operating costs and charges totaling $176 million related to inventory liquidation, accelerated depreciation and amortization, severance, and other costs associated with the Company's decision to close 34 under-performing stores and take additional actions to improve future performance and profitability of its Canadian operations.*

5 *The second quarter of fiscal 2018 includes pre-tax charges totaling $230 million related to long lived asset impairments and discontinued projects associated with the Company's decision to close all Orchard Supply Hardware locations.*

6 *The third quarter of fiscal 2018 includes the following pre-tax charges: $123 million related to accelerated depreciation and amortization, severance and lease obligation costs associated with the Company's decision to close all Orchard Supply Hardware locations; $121 million related to long-lived asset impairment and severance costs associated with the Company's decision to close 20 U.S. stores and 31 stores and other locations in Canada; $22 million related to long-lived asset impairments associated with the Company's decision to exit its Mexico retail operations; and $14 million associated with long-lived asset impairments and inventory write-down related to the Company's decision to exit certain non-core activities within its U.S. Home Improvement business.*

7 *The fourth quarter of fiscal 2018 includes the following pre-tax charges: $952 million of goodwill impairment associated with the Company's Canadian operations; $222 million related to impairments associated with the Company's decision to exit its Mexico retail operations; $208 million related primarily to lease obligation costs associated with the Company's decision to close all Orchard Supply Hardware locations; $150 million related to*

accelerated depreciation, severance and lease obligation costs associated with the Company's decision to close 20 U.S. stores and 31 stores and other locations in Canada; $32 million related to the Company's decision to exit certain non-core activities within its U.S. home improvement business; and $13 million related of severance costs associated with the elimination of the Project Specialists Interiors position.

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A - Controls and Procedures

The Company’s management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s “disclosure controls and procedures”, (as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act)). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Annual Report, the Company’s disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and (2) is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management’s report on internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) and the report of Deloitte & Touche LLP, the Company’s independent registered public accounting firm, are included in Item 8 of this Annual Report.

In addition, no change in the Company’s internal control over financial reporting occurred during the fiscal fourth quarter ended January 31, 2020 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B - Other Information

None.

Part III

Item 10 - Directors, Executive Officers and Corporate Governance

The information required by this item with respect to our executive officers appears in Part I of this Annual Report under the heading, “Information About Our Executive Officers”. The other information required by this item is furnished by incorporation by reference to the information under the headings “Proposal 1: Election of Directors”, “Corporate Governance”, and “Additional Information - Shareholder Proposals for the 2020 Annual Meeting” in the definitive Proxy Statement for the 2020 annual meeting of shareholders, which will be filed with the SEC within 120 days after the fiscal year ended January 31, 2020 (the Proxy Statement).

We have adopted a written code of business conduct and ethics, which is intended to qualify as a “code of ethics” within the meaning of Item 406 of Regulation S-K of the Exchange Act, which we refer to as the Lowe’s Code of Business Conduct and Ethics (the Code). The Code applies to all employees of the Company, including our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions. The Code is designed to ensure that the Company’s business is conducted in a legal and ethical manner. The Code covers all areas of professional conduct, including compliance with laws and regulations, conflicts of interest, fair dealing among customers and suppliers, corporate opportunity, confidential information, insider trading, employee relations, and accounting complaints. The full text of the Code can be found on our website at www.Lowes.com, under the “About Lowe’s”, “Investor Relations”, and “Governance - Code of Business Conduct and Ethics” headings. You can also obtain a copy of the complete Code by contacting Investor Relations at 1-800-813-7613.

We will disclose information pertaining to amendments or waivers to provisions of the Code that apply to our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions and that relate to any element of the Code enumerated in the SEC rules and regulations by posting this information on our website at www.Lowes.com. The information on our website is not a part of this Annual Report and is not incorporated by reference in this report or any of our other filings with the SEC.

Item 11 - Executive Compensation

The information required by this item is furnished by incorporation by reference to the information under the headings “Corporate Governance – Compensation of Directors”, “Compensation Discussion and Analysis”, “Compensation Tables”, and “Compensation Committee Interlocks and Insider Participation” in the Proxy Statement.

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is furnished by incorporation by reference to the information under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the Proxy Statement.

Item 13 - Certain Relationships and Related Transactions, and Director Independence

The information required by this item is furnished by incorporation by reference to the information under the headings “Corporate Governance – Director Independence”, “Related Person Transactions”, and “Appendix A: Categorical Standards for Determination of Director Independence” in the Proxy Statement.

Item 14 - Principal Accountant Fees and Services

The information required by this item is furnished by incorporation by reference to the information under the heading “Audit Matters – Fees Paid to the Independent Registered Public Accounting Firm” in the Proxy Statement.

Table of Contents

Part IV

Item 15 – Exhibits and Financial Statement Schedules

a) 1. Financial Statements

See the following items and page numbers appearing in Item 8 of this Annual Report:

	Page No.
Reports of Independent Registered Public Accounting Firm	38
Consolidated Statements of Earnings for each of the three fiscal years in the period ended January 31, 2020	41
Consolidated Statements of Comprehensive Income for each of the three fiscal years in the period ended January 31, 2020	41
Consolidated Balance Sheets at January 31, 2020 and February 1, 2019	42
Consolidated Statements of Shareholders' Equity for each of the three fiscal years in the period ended January 31, 2020	43
Consolidated Statements of Cash Flows for each of the three fiscal years in the period ended January 31, 2020	44
Notes to Consolidated Financial Statements for each of the three fiscal years in the period ended January 31, 2020	45

Table of Contents

2. Financial Statement Schedule

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In millions)	Balance at beginning of period	Charges to costs and expenses	Deductions	Balance at end of period
January 31, 2020:				
Reserve for loss on obsolete inventory	$ 78	$ 27 [1]	$ —	$ 105
Reserve for inventory shrinkage	222	533	(511) [2]	244
Reserve for sales returns	194	—	—	194
Deferred tax valuation allowance	569	—	(8) [4]	561
Self-insurance liabilities	953	1,711	(1,560) [5]	1,104
Reserve for exit activities	361	—	(273) [7]	88
February 1, 2019:				
Reserve for loss on obsolete inventory	$ 77	$ 1 [1]	$ —	$ 78
Reserve for inventory shrinkage	212	478	(468) [2]	222
Reserve for sales returns	71	123 [3]	—	194
Deferred tax valuation allowance	475	94 [4]	—	569
Self-insurance liabilities	890	1,530	(1,467) [5]	953
Reserve for exit activities	60	384	(83) [6]	361
February 2, 2018:				
Reserve for loss on obsolete inventory	$ 59	$ 18 [1]	$ —	$ 77
Reserve for inventory shrinkage	189	456	(433) [2]	212
Reserve for sales returns	71	—	—	71
Deferred tax valuation allowance	578	—	(103) [4]	475
Self-insurance liabilities	831	1,547	(1,488) [5]	890
Reserve for exit activities	66	19	(25) [6]	60

[1] *Represents the net increase in the required reserve based on the Company's evaluation of obsolete inventory.*

[2] *Represents the actual inventory shrinkage experienced at the time of physical inventories.*

[3] *Represents the net increase in the required reserve based on the Company's evaluation of anticipated merchandise returns. The Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), effective February 3, 2018. Under ASU 2014-09, the sales returns reserve is presented on a gross basis, with a separate asset and liability in the consolidated balance sheet. Reporting periods prior to the adoption of ASU 2014-09 reflect the sales returns reserve on a net basis. For fiscal year 2018, the net increase in the reserve is primarily due to the change from net presentation to gross presentation related to the adoption of the revenue recognition standard, as well as changes in the Company's evaluation of anticipated merchandise returns.*

[4] *Represents an increase/(decrease) in the required reserve based on the Company's evaluation of deferred tax assets.*

[5] *Represents claim payments for self-insured claims.*

[6] *Represents lease payments, net of sublease income.*

[7] *Primarily represents the elimination of exit activity reserves related to rent liabilities upon adoption of ASU 2016-02, Leases (Topic 842), as of February 2, 2019.*

Table of Contents

3. **Exhibits**

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
2.1	Arrangement Agreement, dated as of February 2, 2016, among Lowe's Companies, Inc., Lowe's Companies Canada, ULC and RONA inc. (1)	10-K	001-07898	2.1	March 29, 2016
3.1	Restated Charter of Lowe's Companies, Inc.	10-Q	001-07898	3.1	September 1, 2009
3.2	Bylaws of Lowe's Companies, Inc., as amended and restated January 25, 2019.	8-K	001-07898	3.1	January 28, 2019
4.1	Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee.	8-K	001-07898	4.1	December 15, 1995
4.2	Form of Lowe's Companies, Inc.'s 6 7/8% Debentures due February 15, 2028.	8-K	001-07898	4.2	February 20, 1998
4.3	First Supplemental Indenture, dated as of February 23, 1999, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee.	10-K	001-07898	10.13	April 19, 1999
4.4	Form of Lowe's Companies, Inc.'s 6 1/2% Debentures due March 15, 2029.	10-K	001-07898	10.19	April 19, 1999
4.5	Third Supplemental Indenture, dated as of October 6, 2005, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as an exhibit thereto a form of Lowe's Companies, Inc.'s 5.5% Notes maturing in October 2035.	10-K	001-07898	4.5	April 3, 2007

4.6	Fourth Supplemental Indenture, dated as of October 10, 2006, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as an exhibit thereto a form of Lowe's Companies, Inc.'s 5.80% Notes maturing in October 2036.	S-3 (POSASR)	333-137750	4.5	October 10, 2006

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
4.7	Fifth Supplemental Indenture, dated as of September 11, 2007, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 6.10% Notes maturing in September 2017 and a form of Lowe's Companies, Inc.'s 6.65% Notes maturing in September 2037.	8-K	001-07898	4.1	September 11, 2007
4.8	Sixth Supplemental Indenture, dated as of April 15, 2010, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 4.625% Notes maturing in April 2020 and a form of Lowe's Companies, Inc.'s 5.800% Notes maturing in April 2040.	8-K	001-07898	4.1	April 15, 2010
4.9	Seventh Supplemental Indenture, dated as of November 22, 2010, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as an exhibit thereto a form of Lowe's Companies, Inc.'s 3.750% Notes maturing in April 2021.	8-K	001-07898	4.1	November 22, 2010
4.10	Eighth Supplemental Indenture, dated as of November 23, 2011, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 3.800% Notes maturing in November 2021 and a form of Lowe's Companies, Inc.'s	8-K	001-07898	4.1	November 23, 2011

	5.125% Notes maturing in November 2041.				
4.11	Ninth Supplemental Indenture, dated as of April 23, 2012, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 1.625% Notes maturing in April 2017, a form of Lowe's Companies, Inc.'s 3.120% Notes maturing in April 2022 and a form of Lowe's Companies, Inc.'s 4.650% Notes maturing in April 2042.	8-K	001-07898	4.1	April 23, 2012

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
4.12	Tenth Supplemental Indenture, dated as of September 11, 2013, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 3.875% Notes maturing in September 2023 and a form of Lowe's Companies, Inc.'s 5.000% Notes maturing in September 2043.	8-K	001-07898	4.1	September 11, 2013
4.13	Eleventh Supplemental Indenture, dated as of September 10, 2014, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s Floating Rate Notes maturing in September 2019, a form of Lowe's Companies, Inc.'s 3.125% Notes maturing in September 2024 and a form of Lowe's Companies, Inc.'s 4.250% Notes maturing in September 2044.	8-K	001-07898	4.1	September 10, 2014
4.14	Twelfth Supplemental Indenture, dated as of September 16, 2015, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s Floating Rate Notes maturing in September 2018, a form of Lowe's Companies, Inc.'s 3.375% Notes maturing in September 2025 and a form of Lowe's Companies, Inc.'s 4.375% Notes maturing in September 2045.	8-K	001-07898	4.1	September 16, 2015
4.15	Thirteenth Supplemental Indenture, dated as of April 20,	8-K	001-07898	4.1	April 20, 2016

	2016, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s Floating Rate Notes maturing in April 2019, a form of Lowe's Companies, Inc.'s 1.15% Notes maturing in April 2019, a form of Lowe's Companies, Inc.'s 2.50% Notes maturing in April 2026 and a form of Lowe's Companies, Inc.'s 3.70% Notes maturing in April 2046.				
4.16	Fourteenth Supplemental Indenture, dated as of May 3, 2017, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of 3.100% Notes due May 3, 2027 and a form of 4.050% Notes due May 3, 2047.	8-K	001-07898	4.1	May 3, 2017

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
4.17	Fifteenth Supplemental Indenture, dated as of April 5, 2019, between Lowe's Companies, Inc. and U.S. Bank National Association (as successor trustee), including as exhibits thereto a form of 3.650% Notes due April 5, 2029 and a form of 4.550% Notes due April 5, 2049.	8-K	001-07898	4.2	April 5, 2019
4.18	Second Amended and Restated Credit Agreement, dated as of September 10, 2018, by and among Lowe's Companies, Inc., Bank of America, N.A., as administrative agent and a letter of credit issuer, U.S. Bank National Association, as syndication agent and a letter of credit issuer, Citibank, N.A., Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A. and Wells Fargo Bank, National Association, as co-documentation agents, and the other lenders party thereto.	8-K	001-07898	10.1	September 12, 2018
4.19	364-Day Credit Agreement, dated as of September 9, 2019, by and among Lowe's Companies, Inc., Bank of America, N.A., as administrative agent, U.S. Bank National Association, as syndication agent, Citibank, N.A., Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A. and Wells Fargo Bank, National Association, as co-documentation agents, and the other lenders party thereto.	8-K	001-07898	10.1	September 9, 2019
4.20	364-day term loan facility, dated as of January 3, 2020, by and between Lowe's Companies, Inc. and Wells Fargo Bank, National Association.	8-K	001-07898	10.1	January 9, 2020
4.21	Description of Securities. ‡				
10.1	Lowe's Companies, Inc. Directors' Deferred Compensation Plan, effective July 1, 1994.*	10-Q	001-07898	10.1	December 2, 2008

10.2	Amendment No. 1 to the Lowe's Companies, Inc. Directors' Deferred Compensation Plan, effective January 31, 2009.*	10-K	001-07898	10.21	March 30, 2010
10.3	Lowe's Companies Employee Stock Purchase Plan – Stock Options for Everyone, as amended and restated effective June 1, 2012.*	DEF 14A	001-07898	Appendix B	April 13, 2012
10.4	Lowe's Companies, Inc. 1997 Incentive Plan.*	S-8	333-34631	4.2	August 29, 1997
10.5	Amendments to the Lowe's Companies, Inc. 1997 Incentive Plan, dated January 25, 1998.*	10-K	001-07898	10.16	April 19, 1999

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
10.6	Amendments to the Lowe's Companies, Inc. 1997 Incentive Plan, dated September 17, 1998 (also encompassing as Exhibit I thereto the Lowe's Companies, Inc. Deferred Compensation Program).*	10-K	001-07898	10.17	April 19, 1999
10.7	Amendment No. 1 to the Lowe's Companies, Inc. Deferred Compensation Program, effective as of January 1, 2005.*	10-K	001-07898	10.25	March 29, 2011
10.8	Amendment No. 2 to the Lowe's Companies, Inc. Deferred Compensation Program, effective as of December 31, 2008.*	10-K	001-07898	10.22	March 31, 2009
10.9	Lowe's Companies Benefit Restoration Plan, as amended and restated as of January 1, 2008.*	10-Q	001-07898	10.2	December 12, 2007
10.10	Amendment No. 1 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.10	March 29, 2011
10.11	Amendment No. 2 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.11	March 29, 2011
10.12	Amendment No. 3 to the Lowe's Companies Benefit Restoration Plan.*	10-Q	001-07898	10.1	December 1, 2011
10.13	Amendment No. 4 to the Lowe's Companies Benefit Restoration Plan.*	10-Q	001-07898	10.1	September 4, 2012
10.14	Amendment No. 5 to the Lowe's Companies Benefit Restoration Plan.*	10-Q	001-07898	10.1	December 3, 2013
10.15	Amendment No. 6 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.1	March 31, 2015
10.16	Amendment No. 7 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.16	April 4, 2017

10.17	Lowe's Companies Cash Deferral Plan.*	10-Q	001-07898	10.1	June 4, 2004
10.18	Amendment No. 1 to the Lowe's Companies Cash Deferral Plan.*	10-Q	001-07898	10.1	December 12, 2007
10.19	Amendment No. 2 to the Lowe's Companies Cash Deferral Plan.*	10-Q	001-07898	10.2	December 1, 2010
10.20	Lowe's Companies, Inc. Amended and Restated Directors' Stock Option and Deferred Stock Unit Plan.*	8-K	001-07898	10.1	June 3, 2005
10.21	Form of Lowe's Companies, Inc. Deferred Stock Unit Agreement for Outside Directors.*	10-Q	001-07898	10.1	September 3, 2019

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
10.22	Lowe's Companies, Inc. 2006 Long Term Incentive Plan, as amended and restated effective as of January 30, 2020.*‡				
10.23	Lowe's Companies, Inc. 2016 Annual Incentive Plan, effective as of February 1, 2016.*	DEF 14A	001-07898	Appendix C	April 11, 2016
10.24	Amendment No. 1, dated as of May 4, 2017, to the Amended and Restated Credit Agreement, dated as of November 23, 2016, by and among Lowe's Companies, Inc., Bank of America, N.A., as administrative agent, swing line lender and a letter of credit issuer, Wells Fargo Bank, National Association, as syndication agent and a letter of credit issuer, Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., SunTrust Bank and U.S. Bank National Association, as co-documentation agents, and the other lenders party thereto.	10-Q	001-07898	10.1	June 6, 2017
10.25	Offer Letter between Marvin R. Ellison and Lowe's Companies, Inc. entered into on May 21, 2018.*	8-K	001-07898	10.1	May 22, 2018
10.26	Offer Letter between Lowe's Companies, Inc. and Joseph M. McFarland III entered into on July 18, 2018.*	10-Q	001-07898	10.2	September 4, 2018
10.27	Offer Letter between Lowe's Companies, Inc. and David M. Denton entered into on August 20, 2018.*	10-Q	001-07898	10.3	September 4, 2018
10.28	Form of Lowe's Companies, Inc. Restricted Stock Award Agreement for Tier I Officers.*‡				
10.29	Form of Lowe's Companies, Inc. Performance Share Unit Award Agreement for Tier I Officers.*	10-Q	001-07898	10.2	June 3, 2019
10.30		10-Q	001-07898	10.6	June 3, 2019

	Form of Lowe's Companies, Inc. Non-Qualified Stock Option Agreement for Tier I Officers.*				
10.31	Form of Lowe's Companies, Inc. Change in Control Agreement for Tier I Senior Officers.*	10-Q	001-07898	10.7	September 4, 2018
10.32	Lowe's Companies, Inc. Severance Plan for Senior Officers effective August 16, 2018.*	10-Q	001-07898	10.9	September 4, 2018
10.33	Form of Lowe's Companies, Inc. Director Indemnification Agreement.*	10-Q	001-07898	10.6	December 6, 2018

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
10.34	Form of Lowe's Companies, Inc. Officer Indemnification Agreement.*	10-K	001-07898	10.43	April 2, 2019
21.1	List of Subsidiaries.‡				
23.1	Consent of Deloitte & Touche LLP.‡				
24.1	Power of Attorney (included on the Signatures page of this Annual Report on Form 10-K).‡				
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡				
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡				
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
99.1	Ninth Amendment to the Lowe's 401(k) Plan, effective as of December 11, 2019 (filed to include this amendment as an exhibit to the Registration Statement on Form S-8, Registration No. 033-29772).‡				
101.INS	XBRL Instance Document.‡				
101.SCH	XBRL Taxonomy Extension Schema Document.‡				

101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.‡
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.‡
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.‡
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.‡

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
104	Cover Page Interactive Data File (formatted as Inline XBRL document and included in Exhibit 101).‡				

(1) Schedules have been omitted pursuant to Item 601 (b)(2) of Regulation S-K. Lowe's Companies, Inc. agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule upon request.

* Indicates a management contract or compensatory plan or arrangement.

‡ Filed herewith.

† Furnished herewith.

Item 16 – Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	LOWE'S COMPANIES, INC.
	(Registrant)
March 23, 2020	By: /s/ Marvin R. Ellison
Date	Marvin R. Ellison President and Chief Executive Officer
March 23, 2020	By: /s/ David M. Denton
Date	David M. Denton Executive Vice President, Chief Financial Officer

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Each of the directors of the registrant whose signature appears below hereby appoints David M. Denton and Ross W. McCanless, and each of them severally, as his or her attorney-in-fact to sign in his or her name and behalf, in any and all capacities stated below, and to file with the Securities and Exchange Commission any and all amendments to this report, making such changes in this report as appropriate, and generally to do all such things on their behalf in their capacities as directors and/or officers to enable the registrant to comply with the provisions of the Securities Exchange Act of 1934, and all requirements of the Securities and Exchange Commission.

/s/ Richard W. Dreiling	Chairman of the Board	March 23, 2020
Richard W. Dreiling		Date
/s/ Marvin R. Ellison	President, Chief Executive Officer and Director	March 23, 2020
Marvin R. Ellison		Date
/s/ Raul Alvarez	Director	March 23, 2020
Raul Alvarez		Date
/s/ David H. Batchelder	Director	March 23, 2020
David H. Batchelder		Date
/s/ Angela F. Braly	Director	March 23, 2020
Angela F. Braly		Date
/s/ Sandra B. Cochran	Director	March 23, 2020
Sandra B. Cochran		Date
/s/ Laurie Z. Douglas	Director	March 23, 2020
Laurie Z. Douglas		Date
/s/ James H. Morgan	Director	March 23, 2020
James H. Morgan		Date
/s/ Brian C. Rogers	Director	March 23, 2020
Brian C. Rogers		Date
/s/ Bertram L. Scott	Director	March 23, 2020
Bertram L. Scott		Date
/s/ Lisa W. Wardell	Director	March 23, 2020
Lisa W. Wardell		Date
/s/ Eric C. Wiseman	Director	March 23, 2020
Eric C. Wiseman		Date

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended February 1, 2019

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to _________

Commission file number 1-7898

lowesgraphicimage01.jpg

LOWE'S COMPANIES, INC.

(Exact name of registrant as specified in its charter)

NORTH CAROLINA	**56-0578072**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 Lowe's Blvd., Mooresville, NC	**28117**
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	**704-758-1000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.50 Par Value	**New York Stock Exchange (NYSE)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

As of August 3, 2018, the last business day of the Company's most recent second quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $79.2 billion based on the closing sale price as reported on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT 3/29/2019
Common Stock, $0.50 par value	795,922,717

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Portions of the Proxy Statement for Lowe's 2019 Annual Meeting of Shareholders	Part III

LOWE'S COMPANIES, INC.
- TABLE OF CONTENTS -

		Page No.
PART I		
Item 1.	Business	4
Item 1A.	Risk Factors	9
Item 1B.	Unresolved Staff Comments	16
Item 2.	Properties	16
Item 3.	Legal Proceedings	16
Item 4.	Mine Safety Disclosures	16
	Executive Officers of the Registrant	17
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	18
Item 6.	Selected Financial Data	20
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	38
Item 8.	Financial Statements and Supplementary Data	40
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	79
Item 9A.	Controls and Procedures	79
Item 9B.	Other Information	79
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	80
Item 11.	Executive Compensation	80
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	80
Item 13.	Certain Relationships and Related Transactions, and Director Independence	80
Item 14.	Principal Accountant Fees and Services	80
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	81
Item 16.	Form 10-K Summary	90
	Signatures	91

Part I

Item 1 - Business

General Information

Lowe's Companies, Inc. and subsidiaries (the Company or Lowe's) is a Fortune® 50 company and the world's second largest home improvement retailer. As of February 1, 2019, Lowe's operated 2,015 home improvement and hardware stores, representing approximately 209
million square feet of retail selling space. These operations included 1,723 stores located across 50 U.S. states, as well as 279 stores in Canada. In addition, as of February 1, 2019, Lowe's operated 13 stores in Mexico; however, on November 20, 2018, the Company announced its plans to exit its retail operations in Mexico and is currently exploring exit alternatives.

The Canadian stores include RONA inc. (RONA) which was acquired by Lowe's in 2016. RONA operates 212 stores in Canada as of February 1, 2019, as well as services approximately 231 dealer-owned stores. The RONA stores represent various complementary store formats operating under various banners.

Lowe's was incorporated in North Carolina in 1952 and has been publicly held since 1961. The Company's common stock is listed on the New York Stock Exchange - ticker symbol "LOW".

See Item 6, "Selected Financial Data", of this Annual Report on Form 10-K (Annual Report), for historical revenues, profits and identifiable assets. For additional information about the Company's performance and financial condition, see also Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this Annual Report.

Customers, Market and Competition

Our Customers

We serve homeowners, renters, and professional customers (Pro customers). Individual homeowners and renters complete a wide array of projects and vary along the spectrum of do-it-yourself (DIY) and do-it-for-me (DIFM). The Pro customer consists of two broad categories: construction trades; and maintenance, repair & operations.

Our Market

The U.S. market remains our predominant market, accounting for approximately 92% of consolidated sales for the fiscal year ended February 1, 2019. We are among the many businesses, including home centers, paint stores, hardware stores, lumber yards and garden centers, whose revenues are included in the Building Material and Garden Equipment and Supplies Dealers Subsector (444) of the Retail Trade Sector of the North American Industry Classification System (NAICS), the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

NAICS 444 represents roughly half of what we consider the total U.S. market for our products and services. The broader market in which Lowe's operates includes home-related sales through a variety of companies beyond those in NAICS 444. These consist of other companies in the retail sector, including mass retailers, home goods specialty stores, and online retailers, as well as wholesalers that provide home-related products and services to homeowners, businesses, and the government.

There are many variables that affect consumer demand for the home improvement products and services Lowe's offers. Key indicators we monitor include real disposable personal income, employment, home prices, and housing turnover. We also monitor demographic and societal trends that shape home improvement industry growth.

Our Competition

The home improvement industry includes a broad competitive landscape. We compete with other national and international home improvement warehouse chains and lumberyards in most of our trade areas. We also compete with traditional hardware, plumbing, electrical, home supply retailers, and maintenance and repair organizations. In addition, we compete with general merchandise retailers, warehouse clubs, and online and other specialty retailers as well as service providers that install home improvement products. Location of stores continues to be a key competitive factor in our industry; however, the increasing use of technology and the simplicity of online shopping also underscore the importance of omni-channel capabilities as a competitive factor. We differentiate ourselves from our competitors by providing better customer experiences while delivering superior value in products and service. See further discussion of competition in Item 1A, “Risk Factors”, of this Annual Report.

Products and Services

Our Products

Product Selection
To meet customers’ varying needs, we offer a complete line of products for construction, maintenance, repair, remodeling, and decorating. We offer home improvement products in the following categories: Lumber & Building Materials, Appliances, Seasonal & Outdoor Living, Tools & Hardware, Fashion Fixtures, Rough Plumbing & Electrical, Paint, Millwork, Lawn & Garden, Flooring, and Kitchens. A typical Lowe’s-branded home improvement store stocks approximately 34,000 items, with hundreds of thousands of additional items available through our Special Order Sales system and various online selling channels. See Note 19 of the Notes to Consolidated Financial Statements included in Item 8, “Financial Statements and Supplementary Data”, of this Annual Report for historical revenues by product category for each of the last three fiscal years.

We are committed to offering a wide selection of national brand-name merchandise complemented by our selection of private brands. In addition, we are dedicated to ensuring the products we sell are sourced in a socially responsible, efficient, and cost effective manner.

National Brand-Name Merchandise
In many product categories, customers look for a familiar and trusted national brand to instill confidence in their purchase. Lowe’s home improvement stores carry a wide selection of national brand-name merchandise such as Whirlpool®, GE®, LG®, and Samsung® appliances, Stainmaster® carpets, Sherwin-Williams® and Valspar® paints and stains, Pella® windows and doors, Pergo® hardwood flooring, Dewalt® power tools, Hitachi® pneumatic tools, Weber® and Char-Broil® grills, Owens Corning® insulation and roofing, GAF® roofing, James Hardie® fiber cement siding, Marshalltown® masonry tools and concrete, Husqvarna® outdoor power equipment, John Deere® riding lawn mowers, Werner® ladders, Quoizel® lighting, Nest® products, SharkBite® plumbing products, A. O. Smith® water heaters, Norton® abrasives, and many more. In 2018, we welcomed CRAFTSMAN® to our portfolio of brands offering a variety of tools, storage and outdoor power equipment. We also expanded our partnership with Sherwin Williams® becoming the only national home center to offer Krylon® spray paint, Minwax® stains and finishes, Cabot® stains, Thompson’s Water Seal® stains and waterproofing, and Purdy® paint brushes. In addition, we added brand name merchandise such as Estwing® hammers, Zoeller® pumps, MAPEI® tile-setting materials, and SMARTCORE® vinyl plank products to our portfolio. Our merchandise selection provides the retail and Pro customer a one-stop shop for a wide variety of national brand-name merchandise needed to complete home improvement, repair, maintenance, or construction projects.

Private Brands
Private brands are an important element of our overall portfolio, helping to provide significant value and coordinated style across core categories. We sell private brands in several of our product categories. Some of Lowe’s most important private brands include Kobalt® tools, allen+roth® home décor products, Blue Hawk® home improvement products, Project Source® basic value products, Portfolio® lighting products, Garden Treasures® lawn and patio products, Utilitech® electrical and utility products, Reliabilt® doors and windows, Aquasource® faucets, sinks and toilets, Harbor Breeze® ceiling fans, and Top Choice® lumber products.

Supply Chain
We source our products from vendors worldwide and believe that alternative and competitive suppliers are available for virtually all of our products. Whenever possible, we purchase directly from manufacturers to provide savings for customers and improve our gross margin.

To efficiently move product from our vendors to our stores and maintain in-stock levels, we own and operate distribution facilities that enable products to be received from vendors, stored and picked, or cross-docked, and then shipped to our retail locations or directly to customers. These facilities include 15 highly-automated regional distribution centers (RDC) and 15 flatbed distribution centers (FDC) in the United States. The FDCs distribute merchandise that requires special handling due to size or type of packaging such as lumber, boards, panel products, pipe, siding, ladders, and building materials. On average, each RDC and FDC serves approximately 115 stores. We also own and operate seven distribution centers, including four lumber yards, to serve our Canadian market.

Table of Contents

In addition to the RDCs and FDCs, we also operate coastal holding facilities, transload facilities, appliance distribution centers, and a direct fulfillment center focused on parcel post eligible products. Collectively, our facilities enable our import and e-commerce, as well as parcel post eligible products, to get to their destination as efficiently as possible. Most parcel post items can be ordered by a customer and delivered within two business days at standard shipping rates.

In fiscal 2018, on average, approximately 80% of the total dollar amount of stock merchandise we purchased was shipped through our distribution network, while the remaining portion was shipped directly to our stores from vendors.

Our Services

Installed Sales
We offer installation services through independent contractors in many of our product categories, with Appliances, Flooring, Kitchens, Lumber & Building Materials, and Millwork accounting for the majority of installed sales. Our Installed Sales model, which separates selling and project administration tasks, allows our sales associates to focus on project selling, while project managers ensure that the details related to installing the products are efficiently executed. Installed Sales, which includes both product and labor, accounted for approximately 7% of total sales in fiscal 2018.

Extended Protection Plans and Repair Services
We offer extended protection plans for various products within the Appliances, Kitchens, Fashion Fixtures, Millwork, Rough Plumbing & Electrical, Seasonal & Outdoor Living, and Tools & Hardware categories. These protection plans provide customers with product protection that enhances or extends coverage offered by the manufacturer's warranty, and provides additional customer friendly benefits that go beyond the scope of a manufacturer's warranty. The protection plans provide in-warranty and out-of-warranty repair services for major appliances, outdoor power equipment, tools, grills, fireplaces, air conditioners, water heaters, and other eligible products through our stores or in the home through the Lowe's Authorized Service Repair Network. We offer replacement plans for products in most of these categories when priced below $300, or otherwise specified category-specific price points. Our contact center takes customers' calls, assesses the problems, and facilitates resolutions, making after-sales service easier for our customers by managing the entire process.

Selling Channels

We are continuing to enhance our omni-channel capabilities, which allows our customers to move from channel to channel with simple and seamless transitions even within the same transaction. For example, for many projects, more than half of our customers conduct research online before making an in-store purchase. For purchases made on Lowes.com, customers may pick up their purchase in-store, have their purchase delivered from a store, or have their purchase parcel shipped. In addition, flexible fulfillment options are available for in-store purchases and those made through the contact center. Regardless of the channels through which customers choose to engage with us, we strive to provide them with a seamless experience across channels and an endless aisle of products, enabled by our flexible fulfillment capabilities. Our ability to sell products in-store, online, on-site, or through our contact centers speaks to our ability to leverage our existing infrastructure with the omni-channel capabilities we continue to introduce.

In-Store
Our 1,790 Lowe's-branded home improvement stores, inclusive of 1,723 in the U.S. and 67 in Canada, are generally open seven days per week and average approximately 112,000 square feet of retail selling space, plus approximately 32,000 square feet of outdoor garden center selling space. The 212 RONA stores operate under various complementary store formats that address target customers and occasions. Our home improvement stores in the U.S. and Canada offer similar products and services, with certain variations based on local market factors. We continue to develop and implement tools to make our sales associates more efficient and to integrate our order management and fulfillment processes. Our home improvement stores have Wi-Fi capabilities that provide customers with internet access, making information available quickly to further simplify the shopping experience.

Online
Through our websites and mobile applications, we seek to empower consumers by providing a 24/7 shopping experience, online product information, customer ratings and reviews, online buying guides and how-to videos and other information. These tools help consumers make more informed purchasing decisions and give them increased

confidence to undertake home improvement projects. We enable customers to choose from a variety of fulfillment options, including buying online and picking up in-store as well as delivery or parcel shipment to their homes.

In addition, our LowesForPros.com online tool allows for easy online ordering for our Pro customers, and their choice of in-store pick-up or delivery, saving them time and money.

On-Site
We have on-site specialists available for retail and Pro customers to assist them in selecting products and services for their projects. Our Account Executives ProServices meet with Pro customers at their place of business or on a job site and leverage stores within the area to ensure we meet customer needs for products and resources. In addition, our Project Specialist Exteriors (PSE) program is available in all U.S. Lowe's home improvement stores to discuss exterior projects such as roofing, siding, fencing, and windows, whose characteristics lend themselves to an in-home consultative sales approach.

Contact Centers
Lowe's operates three contact centers which are located in Wilkesboro, NC, Albuquerque, NM, and Indianapolis, IN. These contact centers help Lowe's enable an omni-channel customer experience by providing the ability to tender sales, coordinate deliveries, manage after-sale installations, facilitate repair services for Appliances and Outdoor Power Equipment, and answer general customer questions via phone, mail, e-mail, live chat, and social media.

Employees

As of February 1, 2019, we employed approximately 190,000 full-time and 110,000 part-time employees. Certain employees in Canada are subject to collective bargaining agreements. No other employees are subject to collective bargaining agreements. Management considers its relations with employees to be good.

Seasonality and Working Capital

The retail business in general is subject to seasonal influences, and our business is, to some extent, seasonal. Historically, we have realized the highest volume of sales during our second fiscal quarter (May, June and July) and the lowest volume of sales during our fourth fiscal quarter (November, December and January). Accordingly, our working capital requirements have historically been greater during our fourth fiscal quarter as we build inventory in anticipation of the spring selling season and as we experience lower fourth fiscal quarter sales volumes. We fund our working capital requirements primarily through cash flows generated from operations, but also with short-term borrowings, as needed. For more detailed information, see the Financial Condition, Liquidity and Capital Resources section in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this Annual Report.

Intellectual Property

The name "Lowe's" is a registered service mark of one of our wholly-owned subsidiaries. We consider this mark and the accompanying name recognition to be valuable to our business. This subsidiary and other wholly owned subsidiaries own and maintain various additional registered and unregistered trademarks, trade names and service marks, including but not limited to retail names "RONA" and "Reno Depot", and private brand product names "Kobalt" and "allen+roth". These subsidiaries also maintain various Internet domain names that are important to our business, and we also own registered and unregistered copyrights. In addition, we maintain patent portfolios related to some of our products and services and seek to patent or otherwise protect certain innovations that we incorporate into our products, services, or business operations.

Sustainability

Lowe's is committed to leveraging our time, talents and resources to make our world better by making our communities stronger and making people want to connect with us as their partner in home improvement.

In fiscal 2018, the Board of Directors created a Sustainability Committee that oversees sustainability and environmental matters and monitors related trends and risks. The Company also has a Sustainability Council, led by senior executives. Our strategy focuses on responsible sourcing, offering safe and eco-friendly products, maintaining diverse, healthy, engaged, and skilled workforce, supporting our local communities, and operating ethically and responsibly. We also established new goals to advance our corporate responsibility efforts and intend to work towards achieving the following goals by 2025:

- Lowe’s and the Lowe’s Foundation intends to invest $350 million in local communities through partnerships and charitable contributions.

- Lowe’s will encourage employees to contribute more than three million volunteer hours to improve the communities where they live, work, and play.

- Lowe’s intends to ensure all strategic suppliers have sustainability goals.

- Lowe's intends to increase the number of eco-friendly products available to customers, with the goal of helping our customers save more than $40 billion in energy costs through the sale of ENERGY STAR® products.

- Lowe's intends to have all wood products responsibly sourced.

We want our customers to feel good about the high-quality products they choose at Lowe's. Our products undergo a rigorous selection process, beginning with our sourcing decisions. We give considerable attention to how our products are created and about the people who make them. Through collaboration and established management systems, we monitor our suppliers' practices to ensure we are securing high quality products from suppliers who support worker rights and protect the environment. We are also including innovative, efficient and eco-certified products into our portfolio that provide health and environmental benefits to meet the needs of an increasing customer demand. We are continuing to work with local and regional utilities to offer customers assorted rebates for a variety of environmentally efficient products including ENERGY STAR® and WaterSense®.

As a responsible corporate citizen, Lowe's takes environmental sustainability and product safety very seriously. In fiscal 2018, we published an updated wood sourcing policy to ensure that all wood products sold in our stores originate from well-managed, non-endangered forests and committed to achieve 100 percent Forest Stewardship Council (FSC) certification for all wood products sourced from identified regions at risk by 2020. To manage chemicals more responsibly, Lowe's implemented a safer chemicals policy through a number of strategic actions and commitments. In addition, Lowe's stopped the sale of all products containing methylene chloride and N-Methyl-2-Pyrrolidone (NMP) online and from our stores.

We are committed to reducing our climate impact through sustainable practices and conservation. In fiscal 2018, 399 retail locations upgraded to interior light-emitting diode (LED) lighting. We also replaced 104 aging HVAC units with high-efficiency units and added Variable Fan Drive systems in over 419 stores. We also signed our first renewable energy agreement comprised of 100 megawatts of renewable wind energy in 2018.

We are dedicated to promoting sustainable practices in the transportation industry, and we collaborate with the Environmental Protection Agency's SmartWay program to reduce transportation emissions by managing and reducing fuel usage by creating incentives for freight contractors to improve efficiency and are proud to be the only retailer to achieve the Environmental Protection Agency SmartWay Excellence Award ten years in a row.

Lowe's participates in the Carbon Disclosure Project's climate, forestry, and water questionnaires to benchmark and quantify our environmental efforts. In fiscal 2018, Lowe's also externally verified its greenhouse gas emissions data collection and analysis to validate our findings and increase confidence in our reporting. At a local level, store waste, including cardboard, broken appliances, wood pallets, and more, are recycled through national and regional partners, and we provide in-store recycling centers for our customers to bring in compact fluorescent lamp bulbs, plastic bags, and rechargeable batteries.

In addition, managing our water resources is essential, particularly in regions experiencing drought conditions. Our HydroPoint systems, which combine real-time weather data with site-specific information to reduce water consumption and save on utility costs, are now deployed to approximately 925 locations, covering all stores with operable irrigation systems.

For more information about Lowe's sustainability efforts, please visit Newsroom.Lowes.com/Responsibility.

Investing in Our Communities

Lowe's has a long and proud history of supporting local communities through volunteerism as well as public education and community improvement projects, beginning with the creation of the Lowe's Foundation in 1957. In 2018, all U.S. Lowe's stores completed at least one Lowe's Heroes volunteer project, contributing approximately 200,000 hours to improve spaces in their local communities. Lowe's and the Lowe's Foundation donated approximately $46 million to schools and community organizations in the United States, Canada, and Mexico, including disaster relief and rebuilding efforts.

Lowe’s continues to work with national nonprofit partners to strengthen and stabilize neighborhoods across the country. In 2018, Lowe’s contributed $7 million and teamed with Habitat for Humanity and Rebuilding Together to provide housing solutions for families across the country. Lowe’s also supported nonprofits including the Hispanic Scholarship Fund, Thurgood Marshall Scholarship, United Negro College Fund, the Boys & Girls Clubs of America, SkillsUSA, The Nature Conservancy and Keep America Beautiful to improve communities and build tomorrow’s leaders.

Lowe’s is also committed to helping communities in the days leading up to and months following a natural disaster. In 2018, Lowe’s contributed more than $4 million to disaster relief and mobilized hundreds of volunteers to help communities recovering from storms like Hurricanes Florence and Michael. After Hurricane Florence made landfall, Lowe’s doubled the

Company’s match for the Employee Relief Fund, which provides financial support to associates affected by natural disasters and other hardships. That match continued throughout the year. Together, Lowe’s and its generous associates raised over $4.0 million in 2018, helping approximately 3,100 associates in need.

Today, Lowe’s strategic philanthropic giving focuses on the critical needs affecting its associates, communities and industry by supporting safe, affordable housing initiatives as well as skilled trade education.

For more information on Lowe’s partnerships and latest community improvement projects, visit Newsroom.Lowes.com/Responsibility.

Available Information

Our Annual Report, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge through our internet website at www.Lowes.com/investor, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The SEC maintains an Internet site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A - Risk Factors

We have developed a risk management process using periodic surveys, external research, planning processes, risk mapping, analytics and other tools to identify and evaluate the operational, financial, environmental, reputational, strategic and other risks that could adversely affect our business. For more information about our risk management framework, which is administered by our Chief Financial Officer and includes developing risk mitigation controls and procedures for the material risks we identify, see the description included in the definitive Proxy Statement for our 2019 annual meeting of shareholders (as defined in Item 10 of Part III of this Annual Report) under “Information About the Board of Directors and Committees of the Board - Board Meetings, Committees of the Board and Board Leadership Structure - Board’s Role in the Risk Management Process.”

We describe below certain risks that could adversely affect our results of operations, financial condition, business reputation or business prospects. These risk factors may change from time to time and may be amended, supplemented or superseded by updates to the risk factors contained in our future periodic reports on Form 10-K, Form 10-Q and reports on other forms we file with the Securities and Exchange Commission. All forward-looking statements about our future results of operations or other matters made by us in this Annual Report, in our Annual Report to Lowe’s Shareholders and in our subsequently filed reports to the Securities and Exchange Commission, as well as in our press releases and other public communications, are qualified by the risks described below.

You should read these risk factors in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 and our consolidated financial statements and related notes in Item 8. There also may be other factors that we cannot anticipate or that are not described in this Annual Report generally because we do not currently perceive them to be material. Those factors could cause results to differ materially from our expectations.

We may be unable to adapt our business concept in a rapidly evolving retail environment to address the changing shopping habits, demands and demographics of our customers, or realize the intended benefits of organizational change initiatives.
The home improvement retail environment, like the retail environment generally, is rapidly evolving, and adapting our business concept to respond to our customers’ changing shopping habits and demands and their changing demographics is critical to our future success. Our success is dependent on our ability to identify and respond to the economic, social, style and other trends that affect demographic and consumer preferences in a variety of our merchandise categories and service offerings. Customers’ expectations about how they wish to research, purchase and receive products and services have also evolved. It is difficult to predict the mix of products and services that our customers will demand. Failure to identify such trends, adapt our business concept, and implement change, growth, and productivity initiatives successfully could negatively affect our relationship with our customers, the demand for the home improvement products and services we sell, the rate of growth of our business, our market share and results of operations.

We may not be able to realize the benefits of our strategic initiatives focused on omni-channel sales and marketing presence if we fail to deliver the capabilities required to execute on them.

Our interactions with customers has evolved into an omni-channel experience as they increasingly are using computers, tablets, mobile phones and other devices to shop in our stores and online and provide feedback and public commentary about all aspects of our business. Omni-channel retail is quickly evolving, and we must anticipate and meet our customers' expectations and counteract new developments and technology investments by our competitors. Our customer-facing technology systems must appeal to our customers, function as designed and provide a consistent customer experience. The success of our strategic initiatives to adapt our business concept to our customers' changing shopping habits and demands and changing demographics will require us to deliver large, complex programs requiring more integrated planning, initiative prioritization and program sequencing. These initiatives will require new competencies in many positions, and our management, employees and contractors will have to adapt and learn new skills and capabilities. To the extent they are unable or unwilling to make these transformational changes, we may be unable to realize the full benefits of our strategic initiatives and expand our relevant market access. Our results of operations, financial condition or business prospects could also be adversely affected if we fail to provide a consistent experience for our customers, regardless of sales channel, if our technology systems do not meet our customers' expectations, if we are unable to counteract new developments and innovations implemented by our competitors or if we are unable to attract, retain and manage the talent succession of additional personnel at various levels of the Company who have the skills and capabilities we need to implement our strategic initiatives and drive the changes that are essential to successfully adapting our business concept in the rapidly changing retail environment.

Our business and our reputation could be adversely affected by cybersecurity incidents and the failure to protect customer, employee, vendor or Company information or to comply with evolving regulations relating to our obligation to protect our systems, assets and such information.
Cyber-attacks and tactics designed to gain access to and exploit sensitive information by breaching mission critical systems of large organizations are constantly evolving, and high profile security breaches leading to unauthorized release of sensitive customer information have occurred in recent years with increasing frequency at a number of major U.S. companies, including several large retailers, despite widespread recognition of the cyber-attack threat and improved data protection methods. As with many other retailers, we receive and store certain personal information about our customers, employees and vendors. Additionally, we use third-party service providers for certain services, such as authentication, content delivery, back-office support and other functions, and we provide such third-party service providers with personal information necessary for the services concerned. Despite our continued vigilance and investment in information security, we, like others in our industry, are subject to the risk that unauthorized parties may attempt to gain access to our systems or our information through fraud or other means of deceiving our associates, third party providers, or vendors, and we or our third-party service providers cannot guarantee that we or they are able to adequately anticipate or prevent a future breach in our or their systems that results in the unauthorized access to, destruction, misuse or release of personal information or other sensitive data. It can be difficult to preempt or detect ever-evolving forms of cyber-attacks. If a ransomware attack occurs, it is possible that we could be prevented from accessing our own data. Our information security or our service providers' information security may also be compromised because of human errors, including by employees, or system errors. Our systems and our service providers' systems are additionally vulnerable to a number of other causes, such as power outages, computer viruses, technology system failures or catastrophic events. In the event that our systems are breached or damaged for any reason, we may also suffer loss or unavailability of data and interruptions to our business operations while such breach or damage is being remedied. Should these events occur, the unauthorized disclosure, loss or unavailability of data and disruption to our business may have a material adverse effect on our reputation, drive existing and potential customers away and lead to financial losses from remedial actions, or potential liability, including possible litigation and punitive damages. A security breach resulting in the unauthorized release of data from our information systems or our third-party service providers' information systems could also materially increase the costs we already incur to protect against such risks and require dedication of substantial resources to manage the aftermath of such a breach. Data privacy and cybersecurity laws in the United States and internationally are constantly changing, and in the United States alone, we may be subject to regulation at both the federal and state level. In order to maintain our compliance with such laws as they come to fruition, we may sustain increased costs in order to continually evaluate our policies and processes and adapt to new requirements that are or become applicable to us. As the regulatory environment relating to retailers' and other companies' obligation to protect personal information becomes stricter, a material failure on our part to comply with applicable regulations could subject us to fines, other regulatory sanctions or government investigation, and potentially to lawsuits brought by private individuals, regulators or states' attorney general.

We could be adversely affected by the failure to adequately protect and maintain our intellectual property rights or claims by third parties that we infringe their intellectual property rights.
Our proprietary rights in our trademarks, trade names, service marks, domain names, copyrights, patents, trade secrets and other intellectual property rights are valuable assets of our business. We rely on a combination of trademark law, patent law, copyright law, trade secret protections and contractual arrangements, such as

nondisclosure and confidentiality agreements, to protect our proprietary rights. Maintenance and, when necessary, enforcement of our intellectual property rights require expenditure of financial and managerial resources, and despite our efforts, we may not always be able to effectively protect all of such rights. We may not be able to prevent or even discover every instance of unauthorized third party uses of our intellectual property or dilution of our brand names, such as when a third party uses trademarks that are identical or similar to our own. Additionally, our trade secrets are vulnerable to public disclosure by our own employees or as a result of a breach of or damage to our systems, which could result in theft of our proprietary property. We may also be subject to intellectual property infringement lawsuits, brought by third parties against us claiming that our operations, products or services infringe third party rights (whether meritorious or not), including patent and trademark rights, which can be time consuming and costly to defend or settle and may cause significant diversion of management attention and result in substantial monetary damages, injunctive orders against us, unfavorable royalty-bearing licensing agreements or bad publicity.

We are subject to payments-related risks that could increase our operating costs, expose us to fraud, subject us to potential liability and potentially disrupt our business.
We accept payments using a variety of methods, including credit cards, debit cards, credit accounts, our private label and co-branded credit cards, gift cards, consumer invoicing and physical bank checks, and we may offer different payment options over time. These payment options subject us to many compliance requirements, including, but not limited to, compliance with payment card association operating rules, including data security rules, certification requirements, rules governing electronic funds transfers and Payment Card Industry Data Security Standards. They also subject us to potential fraud by criminal elements seeking to discover and take advantage of security vulnerabilities that may exist in some of these payment systems. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, electronic checks, gift cards and promotional financing, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected.

As customer-facing technology systems become an increasingly important part of our omni-channel sales and marketing strategy, the failure of those systems to perform effectively and reliably could keep us from delivering positive customer experiences.
Access to the Internet from computers, tablets, smart phones and other mobile communication devices has empowered our customers and changed the way they shop and how we interact with them. Our websites, including Lowes.com and Lowesforpros.com, are a sales channel for our products, and are also a method of making product, project and other relevant information available to our customers that impacts our in-store sales. Additionally, we have multiple affiliated websites and mobile apps through which we seek to inspire, inform, cross-sell, establish online communities among and otherwise interact with our customers. Performance issues with these customer-facing technology systems, including temporary outages caused by distributed denial of service, ransomware or other cyber-attacks, or a complete failure of one or more of them without a disaster recovery plan that can be quickly implemented, could quickly destroy the positive benefits they provide to our home improvement business and negatively affect our customers' perceptions of Lowe's as a reliable online vendor and source of information about home improvement products and services.

If we fail to hire, train, manage and retain qualified sales associates and specialists with expanded skill sets or corporate support staff with the capabilities of delivering on strategic objectives, we could lose sales to our competitors, and our labor costs, resulting from operations or the execution of corporate strategies, could be negatively affected.
Our customers, whether they are homeowners, renters or commercial businesses, expect our sales associates and specialists to be well trained and knowledgeable about the products we sell and the home improvement services we provide. We compete with other retailers for many of our sales associates and specialists, and we invest significantly in them with respect to training and development to strive for high engagement. Increasingly, our sales associates and specialists must have expanded skill sets, including, in some instances, the ability to do in-home or telephone sales. A challenge we face is attracting and retaining a sufficiently diverse workforce that can deliver relevant, culturally competent and differentiated experiences for a wide variety of culturally diverse customers. In fact, in many of our stores, our employees must be able to serve customers whose primary language and cultural traditions are different from their own. Additionally, in order to deliver on the omni-channel expectations of our customers, we rely on the specialized training and capabilities of corporate support staff, which are broadly sought after by our competitors. If we are unable to hire, train, manage and retain qualified sales associates and specialists, the quality of service we provide to our customers may decrease and our results of operations could be negatively affected. Furthermore, our ability to meet our labor needs, particularly in a competitive labor market, while controlling our costs is subject to a variety of external factors, including wage rates, the availability of and competition for talent, health care and other benefit costs, our brand image and reputation, changing demographics and adoption of new or revised immigration,

employment, and labor laws and regulations. Periodically, we are subject to labor organizing efforts, and if we become subject to collective bargaining agreements in the future, it could adversely affect how we operate our business and adversely affect our labor costs and our ability to retain a qualified workforce.

If we do not successfully manage the transitions associated with the appointment of a new Chairman, Chief Executive Officer and Chief Financial Officer and other members of our leadership team as part of a new leadership structure, it could have an adverse impact on our business operations as well as be viewed negatively by our customers and shareholders.
On May 20, 2018, the Board of Directors of the Company appointed Marvin R. Ellison as President and Chief Executive Officer and Richard R. Dreiling as Chairman of the Board of Directors, in each case, effective as of July 2, 2018. On July 2, 2018, Mr. Ellison assumed the office of President and Chief Executive Officer and joined the Board of Directors, and Mr. Dreiling became Chairman of the Board of Directors. Mr. Ellison and Mr. Dreiling succeeded Robert A. Niblock. who retired as Chairman, President and Chief Executive Officer of the Company and member of the Board of Directors effective July 2, 2018. On June 4, 2018, we announced that Marshall A. Croom planned to retire from the Company, effective October 5, 2018, and on August 22, 2018, we named David M. Denton as Executive Vice President, Chief Financial Officer, which appointment became effective on November 19, 2018. In addition, on July 9, 2018, we announced the implementation of a new leadership structure and named William P. Boltz as Executive Vice President, Merchandising effective August 15, 2018. On July 20, 2018, we named Joseph M. McFarland III as Executive Vice President, Stores, effective August 15, 2018. On August 7, 2018, we named Donald E. Frieson as Executive Vice President, Supply Chain, effective August 8, 2018. On November 2, 2018, the Company announced the appointment of Seemantini Godbole as Chief Information Officer, effective November 12, 2018. Such leadership transitions can be inherently difficult to manage, and an inadequate transition may cause disruption to our business, including to our relationships with our customers, suppliers, vendors and employees. It may also make it more difficult to hire and retain key employees.

Positively and effectively managing our public image and reputation is critical to our business success, and, if our public image and reputation are damaged, it could negatively impact our relationships with our customers, vendors and store associates and specialists and, consequently, our business and results of operations.
Our public image and reputation are critical to ensuring that our customers shop at Lowe's, our vendors want to do business with Lowe's and our sales associates and specialists want to work for Lowe's. We must continue to manage, preserve and grow Lowe's public image and reputation. Any negative incident can erode trust and confidence quickly, and adverse publicity about us could damage our reputation and brand image, undermine our customers' confidence, reduce demand for our products and services, affect our relationships with current and future vendors, impact our results of operations and affect our ability to retain and recruit store associates and specialists. The significant expansion in the use of social media over recent years has compounded the potential scope of the negative publicity that could be generated by such negative incidents.

Strategic transactions, such as our acquisition of RONA and Maintenance Supply Headquarters, involve risks, and we may not realize the expected benefits because of numerous uncertainties and risks.
We regularly consider and enter into strategic transactions, including mergers, acquisitions, joint ventures, investments and other growth, market and geographic expansion strategies, with the expectation that these transactions will result in increases in sales, cost savings, synergies and other various benefits. Our ability to deliver the expected benefits from any strategic transaction is subject to numerous uncertainties and risks, including our ability to integrate personnel, labor models, financial, IT and other systems successfully; disruption of our ongoing business and distraction of management; hiring additional management and other critical personnel; and increasing the scope, geographic diversity and complexity of our operations. Effective internal controls are necessary to provide reliable and accurate financial reports, and the integration of businesses may create complexity in our financial systems and internal controls and make them more difficult to manage. Integration of businesses into our internal control system could cause us to fail to meet our financial reporting obligations. Additionally, any impairment of goodwill or other assets acquired or divested in a strategic transaction or charges to earnings associated with any strategic transaction, may materially reduce our earnings. For example, in the fourth quarter of fiscal 2018, we recognized a $952 million goodwill impairment charge on our Canadian business. Our shareholders may react unfavorably to our strategic transactions. We may not realize any anticipated benefits from such transactions, we may be exposed to additional liabilities of any acquired business or joint venture, and we may be exposed to litigation in connection with the strategic transaction. Further, we may finance these strategic transactions by incurring additional debt, which could increase leverage or impact our ability to access capital in the future.

Failure to achieve and maintain a high level of product and service quality could damage our image with customers and negatively impact our sales, profitability, cash flows and financial condition.
Product and service quality issues could result in a negative impact on customer confidence in Lowe's and our brand image. If our product and service offerings do not meet applicable safety standards or our customers' expectations regarding safety or quality, we could experience lost sales and increased costs and be exposed to legal, financial and reputational risks. Actual, potential or perceived product safety concerns could expose us to litigation, as well as

government enforcement action, and result in costly product recalls and other liabilities. As a result, Lowe’s reputation as a retailer of high quality products and services, including both national and Lowe’s private brands, could suffer and impact customer loyalty.

We have many competitors who could take sales and market share from us if we fail to execute our merchandising, marketing and distribution strategies effectively, or if they develop a substantially more effective or lower cost means of meeting customer needs, resulting in a negative impact on our business and results of operations.
We operate in a highly competitive market for home improvement products and services and have numerous large and small, direct and indirect competitors. The principal competitive factors in our industry include convenience, customer service, quality and price of merchandise and services, in-stock levels, and merchandise assortment and presentation. We face growing competition from online and omni-channel retailers who have a similar product or service offering. Customers are increasingly able to quickly comparison shop and determine real-time product availability and price using digital tools. Further, online and omni-channel retailers continue to focus on delivery services, as customers are increasingly seeking faster, guaranteed delivery times and low-price or free shipping, and we must make investments to keep up with our customers' evolving shopping preferences. Our ability to be competitive on delivery times, delivery costs, and delivery options depends on many factors, including successful implementation of our initiatives related to supply chain transformation. Our failure to respond effectively to competitive pressures and changes in the markets for home improvement products and services could affect our financial performance. Moreover, changes in the promotional pricing and other practices of our competitors, including the effects of competitor liquidation activities, may impact our results.

Our inability to effectively and efficiently manage and maintain our relationships with selected suppliers of brand name products could negatively impact our business operations and financial results.
We form strategic relationships with selected suppliers to market and develop products under a variety of recognized and respected national and international brand names. We also have relationships with certain suppliers to enable us to sell proprietary products which differentiate us from other retailers. The inability to effectively and efficiently manage and maintain our relationships with these suppliers could negatively impact our business operations and financial results.

Failure of a key vendor or service provider that we cannot quickly replace could disrupt our operations and negatively impact our business, financial condition and results of operations.
We rely upon a number of vendors as the sole or primary source of some of the products we sell. We also rely upon many independent service providers for technology solutions and other services that are important to many aspects of our business. Many of these vendors and service providers have certain products or specialized skills needed to support our business concept and our strategies. If these vendors or service providers discontinue operations or are unable to perform as expected or if we fail to manage them properly or we are unable to replace them quickly, our business could be adversely affected, at least temporarily, until we are able to replace them.

If our domestic or international supply chain or our fulfillment network for our products is ineffective or disrupted for any reason, or if these operations are subject to trade policy changes, our results of operations could be adversely affected.
We source, stock and sell products from domestic and international vendors, and their ability to reliably and efficiently fulfill our orders is critical to our business success. We source a large number of our products from foreign manufacturers, with China being the dominant import source. The current United States administration has signaled the possibility of major changes in certain tax and trade policies, tariffs and other regulations affecting trade between the United States and other countries, such as the imposition of additional tariffs or duties on imported products and the exit or renegotiation of certain trade agreements, including the North American Free Trade Act (NAFTA) and the rules of the World Trade Organization. Political developments in the United States, including possible termination of NAFTA, or failure to finalize and implement the United States-Mexico-Canada Agreement (USMCA), the proposed replacement for NAFTA, may have implications for the trade arrangements among the United States, Mexico, and Canada. While it is not possible to predict whether or when any such changes will occur or what form they may take, because we source a large percentage of our merchandise from outside the United States, major changes in tax or trade policies, tariffs or trade relations could adversely affect our business, results of operations, effective income tax rate, liquidity and net income. In addition, other countries may change their business and trade policies in anticipation of or in response to increased import tariffs and other changes in United States trade policy and regulations.

Financial instability among key vendors, political instability and labor unrest in source countries or elsewhere in our supply chain, changes in the total costs in our supply chain (fuel, labor and currency exchange rates), port labor disputes and security, the outbreak of pandemics, weather-related events, natural disasters, work stoppages, shipping capacity restraints, changes in trade policy, retaliatory trade restrictions imposed by either the United States or a major source country, tariffs or duties, fluctuations in currency exchange rates and transport availability, capacity and costs are beyond our control and could negatively impact our business if they seriously disrupted the movement of products through our supply chain or increased their costs. Additionally, as we add fulfillment capabilities or pursue strategies with different fulfillment requirements, our fulfillment network becomes increasingly complex and operating it becomes more challenging. If our fulfillment network does not operate properly or if a vendor fails to deliver on its commitments, we could experience delays in inventory, increased delivery costs or merchandise out-of-stocks that could lead to lost sales and decreased customer confidence, and adversely affect our results of operations.

Failure to effectively manage our third-party installers could result in increased operational and legal risks and negatively impact our business, financial condition and results of operations.

We use third-party installers to provide installation services to our customers, and, as the general contractor, we are subject to regulatory requirements and risks applicable to general contractors, including the management of the permitting, licensing and quality of our third-party installers. Our failure to effectively manage such requirements, the third-party installers, and our internal processes regarding installation services could result in lost sales, fines and lawsuits, as well as damage to our reputation, which could negatively affect our business.

Operating internationally presents unique challenges, including some that have required us to adapt our store operations, merchandising, marketing and distribution functions to serve customers in Canada and Mexico. Our business and results of operations could be negatively affected if we are unable to effectively address these challenges.

We operate stores in Canada and Mexico. We have previously announced our intent to exit our Mexican operations, and we are currently exploring exit alternatives. Expanding and operating internationally presents unique challenges that may increase the anticipated costs and risks of operation and expansion, and slow the anticipated rate of expansion. Our future operating results in these countries or in other countries or regions in which we currently operate or may operate in the future could be negatively affected by a variety of factors, including unfavorable political or economic factors, adverse tax consequences, volatility in foreign currency exchange rates, increased difficulty in enforcing intellectual property rights, costs and difficulties of managing international operations, challenges with identifying and contracting with local suppliers and other risks created as a result of differences in culture, laws and regulations. These factors could restrict our ability to operate our international businesses profitably and therefore have a negative impact on our results of operations and financial position. In addition, our reported results of operations and financial position could also be negatively affected by exchange rates when the activities and balances of our foreign operations are translated into U.S. dollars for financial reporting purposes.

We must comply with various and multiple laws and regulations that differ substantially in each area where we operate. Changes in existing or new laws and regulations or regulatory enforcement priorities, or our inability to comply with such laws and regulations, could adversely affect our business, financial condition and results of operations.

Laws and regulations at the local, regional, state, federal and international levels change frequently, and the changes can impose significant costs and other burdens of compliance on our business and our vendors. If we fail to comply with these laws, rules and regulations, or the manner in which they are interpreted or applied, we may be subject to government enforcement action, litigation, damage to our reputation, civil and criminal liability, damages, fines and penalties and increased cost of regulatory compliance, any of which could adversely affect our results of operations and financial performance. These laws, rules and regulations include, but are not limited to, import and export requirements, U.S. laws such as the Foreign Corrupt Practices Act and local laws prohibiting corrupt payments to governmental officials. Although we have implemented policies and procedures to help ensure compliance with these laws, rules and regulations, there can be no certainty that our employees and third parties with whom we do business will not take actions in violation of our policies or laws. Many of these laws, rules and regulations are complex, evolving and are subject to varying interpretations and enforcement actions. Any changes in regulations, the imposition of additional regulations, or the enactment of any new legislation could have an adverse impact, directly or indirectly, on our financial condition and results of operations. We may also be subject to investigations or audits by governmental authorities and regulatory agencies as a result of enforcing existing laws and regulations or changes in enforcement priorities, which can occur in the ordinary course of business or which can result from increased scrutiny from a particular agency towards an industry, country or practice.

Future litigation or governmental proceedings could result in material adverse consequences, including judgments or settlements, negatively affecting our business, financial condition and results of operations.

We are, and in the future will become, involved in lawsuits, regulatory inquiries, and governmental and other legal proceedings arising out of the ordinary course of our business. Some of these proceedings may raise difficult and complicated factual and legal issues and can be subject to uncertainties and complexities. The timing of the final resolutions to lawsuits, regulatory inquiries and governmental and other legal proceedings is typically uncertain. Additionally, the possible outcomes of, or resolutions to, these proceedings could include adverse judgments or settlements, either of which could require substantial payments. Furthermore, defending against these proceedings may require a diversion of management’s attention and resources. None of the legal proceedings in which we are currently involved, individually or collectively, are considered material.

Our financial performance could be adversely affected if our management information systems are seriously disrupted or we fail to properly maintain, improve, upgrade and expand those systems.
Our efforts to provide an omni-channel experience for our customers include investing in, maintaining and making ongoing improvements of our existing management information systems that support operations, such as sales, inventory replenishment,

merchandise ordering, project design and execution, transportation, receipt processing and fulfillment. Our systems are subject to damage or interruption as a result of catastrophic events, power outages, viruses, malicious attacks and telecommunications failures, and as a result we may incur significant expense, data loss as well as an erosion of customer confidence. Additionally, we continually make investments in our systems which may introduce disruption. Our financial performance could be adversely affected if our management information systems are seriously disrupted or we fail to properly maintain, improve, upgrade and expand those systems.

Liquidity and access to capital rely on efficient, rational and open capital markets and are dependent on Lowe's credit strength. Our inability to access capital markets could negatively affect our business, financial performance and results of operations.
We have relied on the public debt markets to fund portions of our capital investments and the commercial paper market and bank credit facilities to fund our working capital needs. Our access to these markets depends on our strong credit ratings, the overall condition of debt capital markets and our operating performance. Disruption in the financial markets or an erosion of our credit strength or declines on our credit rating could impact negatively our ability to meet capital requirements or fund working capital needs.

Discontinuation, reform or replacement of LIBOR and other benchmark rates, or uncertainty related to the potential for any of the foregoing, may adversely affect our business.
The U.K. Financial Conduct Authority announced in 2017 that it intends to phase out LIBOR by the end of 2021. In addition, other regulators have suggested reforming or replacing other benchmark rates. The discontinuation, reform or replacement of LIBOR or any other benchmark rates may have an unpredictable impact on contractual mechanics in the credit markets or cause disruption to the broader financial markets. Uncertainty as to the nature of such potential discontinuation, reform or replacement may negatively impact interest expense related to borrowings under our credit facilities. We may in the future pursue amendments to our credit facilities to provide for a transition mechanism or other reference rate in anticipation of LIBOR's discontinuation, but we may not be able to reach agreement with our lenders on any such amendments. Further, certain of our current debt instruments limit the amount of indebtedness we and our subsidiaries may incur. As a result, additional financing to replace our LIBOR-based debt may be unavailable, more expensive or restricted by the terms of our outstanding indebtedness.

Our sales are dependent upon the health and stability of the general economy. Adverse changes in economic factors specific to the home improvement industry may negatively impact the rate of growth of our total sales and comparable sales.
Many U.S. and global economic factors may adversely affect our financial performance. These include, but are not limited to, periods of slow economic growth or recession, decreasing housing turnover or home price appreciation, volatility and/or lack of liquidity from time to time in U.S. and world financial markets and the consequent reduced availability and/or higher cost of borrowing to Lowe's and its customers, slower rates of growth in real disposable personal income that could affect the rate of growth in consumer spending, high rates of unemployment, consumer debt levels, fluctuations in fuel and energy costs, inflation or deflation of commodity prices, natural disasters and acts of both domestic and international terrorism. Sales of many of our product categories and services are driven by the activity level of home improvement projects. Adverse development in these factors could result in a decrease in home improvement activity which could reduce demand for our products and services.

Item 1B - Unresolved Staff Comments

None.

Item 2 - Properties

At February 1, 2019, our properties consisted of 2,002 stores in the U.S. and Canada with a total of approximately 209 million square feet of selling space. In addition, at February 1, 2019, our properties included 13 stores in Mexico; however, on November 20, 2018, the Company announced its plans to exit its retail operations in Mexico. Of the total stores operating at February 1, 2019, approximately 83% are owned, which includes stores on leased land, with the remainder being leased from third parties. We also operate regional distribution centers and other facilities to support distribution and fulfillment, as well as data centers and various support offices. Our executive offices are located in Mooresville, North Carolina.

Item 3 - Legal Proceedings

The Company is from time to time a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. With respect to such lawsuits, claims and proceedings, the Company records reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. The Company does not believe that any of these proceedings, individually or in the aggregate, would be expected to have a material adverse effect on its results of operations, financial position, or cash flows. The Company maintains liability insurance for certain risks that are subject to certain self-insurance limits.

Item 4 - Mine Safety Disclosures

Not applicable.

Table of Contents

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is a list of names and ages of the executive officers of the registrant indicating all positions and offices with the registrant held by each such person and each person's principal occupations or employment during the past five years. Each executive officer of the registrant is elected by the board of directors. Each executive officer of the registrant holds office from the date of election until a successor is elected or until his or her death, resignation or removal.

Name	Age	Title
Marvin R. Ellison	54	President and Chief Executive Officer since July 2018; Chairman of the Board and Chief Executive Officer, J.C. Penney Company, Inc. (a department store retailer), 2016 – June 2018; Chief Executive Officer, J.C. Penney Company, Inc., 2015 – 2016; President, J.C. Penney Company, Inc., 2014 – 2015; Executive Vice President – U.S. Stores, The Home Depot, Inc. (a home improvement retailer) 2008 – 2014.
William P. Boltz	56	Executive Vice President, Merchandising since August 2018; President and CEO, Chervon North America (a global power tool supplier), 2015-2018; President and owner of The Boltz Group, LLC (a retail consulting firm), 2013 – 2015; Senior Vice President, Merchandising, The Home Depot, Inc. (a home improvement retailer), 2006 – 2012.
David M. Denton	53	Executive Vice President and Chief Financial Officer since November 2018; Executive Vice President and Chief Financial Officer, CVS Health Corporation (a pharmacy innovation company), 2010 – November 2018.
Donald E. Frieson	60	Executive Vice President, Supply Chain since August 2018; Executive Vice President, Operations, Sam's Club (a general merchandise retailer), 2014 – 2017; Senior Vice President, Replenishment, Planning and Real Estate, Sam's Club, 2012 – 2014.
Seemantini Godbole	49	Executive Vice President, Chief Information Officer since November 2018; Senior Vice President, Technology and Digital, Target Corporation (a department store retailer), January 2017 – November 2018; Vice President, Technology and Digital, Target Corporation, 2013 – December 2016.
Matthew V. Hollifield	52	Senior Vice President and Chief Accounting Officer since 2005.
Ross W. McCanless	61	Executive Vice President, General Counsel and Corporate Secretary since 2017; Chief Legal Officer, Secretary and Chief Compliance Officer, 2016 – 2017; General Counsel, Secretary and Chief Compliance Officer, 2015 – 2016; Chief Legal Officer, Extended Stay America, Inc. (a hotel operating company) and ESH Hospitality, Inc. (a hotel real estate investment company), 2013 – 2014.
Joseph M. McFarland III	49	Executive Vice President, Stores since August 2018; Executive Vice President and Chief Customer Officer, J.C. Penney Company, Inc. (a department store retailer), March 2018 – August 2018; Executive Vice President, Stores, J.C. Penney Company, Inc., 2016 – March 2018; Divisional President, The Home Depot, Inc. (a home improvement retailer), 2007 – 2015.
Jennifer L. Weber	52	Executive Vice President and Chief Human Resources Officer since 2016; Executive Vice President, External Affairs and Strategic Policy, Duke Energy Corporation (an electric power company), 2014 – 2016; Executive Vice President and Chief Human Resources Officer, Duke Energy Corporation, 2011 – 2014.

Part II

Item 5 - Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Lowe's common stock is traded on the New York Stock Exchange (NYSE). The ticker symbol for Lowe's is "LOW". As of March 29, 2019, there were 22,326 holders of record of Lowe's common stock.

Total Return to Shareholders

The following information in Item 5 of this Annual Report is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

The following table and graph compare the total returns (assuming reinvestment of dividends) of the Company's common stock, the S&P 500 Index (S&P 500) and the S&P Retailing Industry Group Index (S&P Retail Index). The graph assumes $100 invested on January 31, 2014 in the Company's common stock and each of the indices.

totalreturnsgraph2018.jpg

	1/31/2014	1/30/2015	1/29/2016	2/3/2017	2/2/2018	2/1/2019
Lowe's	$ 100.00	$ 148.79	$ 159.77	$ 166.32	$ 234.64	$ 228.98
S&P 500	100.00	114.22	113.46	137.36	168.46	168.36
S&P Retail Index	$ 100.00	$ 118.75	$ 137.22	$ 159.62	$ 225.15	$ 241.71

Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of the Company's common stock made during the fourth quarter of fiscal 2018:

	Total Number of Shares Purchased [1]		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
November 3, 2018 – November 30, 2018[3]	3,421,699	$	90.33	3,421,143	$ 4,123,763,667
December 1, 2018 – January 4, 2019	1,159,359		91.19	1,059,707	14,027,232,040
January 5, 2019 – February 1, 2019	872,707		94.56	872,036	13,944,777,229
As of February 1, 2019	**5,453,765**	**$**	**91.19**	**5,352,886**	**$ 13,944,777,229**

[1] *The total number of shares purchased includes shares withheld from employees to satisfy either the exercise price of stock options or the statutory withholding tax liability upon the vesting of share-based awards.*

[2] *On January 26, 2018, the Company announced that its Board of Directors authorized $5.0 billion of share repurchases with no expiration. On December 12, 2018, the Company announced that its Board of Directors authorized an additional $10.0 billion of share repurchases with no expiration.*

[3] *In November 2018, the Company entered into an Accelerated Share Repurchase (ASR) agreement with a third-party financial institution to repurchase $270 million of the Company's common stock. Pursuant to the agreement, the Company paid $270 million to the financial institution and received an initial delivery of 2.6 million shares. Subsequent to the end of the fourth quarter, in February 2019, the Company finalized the transaction and received an additional 0.3 million shares. The average price paid per share reflected in the table above was derived using the fair market value of the shares on the date the initial 2.6 million shares were delivered. See Note 11 to the consolidated financial statements included herein for additional information regarding share repurchases.*

Item 6 - Selected Financial Data

Selected Statement of Earnings Data (In millions, except per share data)	**2018[1, 2]**	**2017[2]**	**2016[2, 3, 4]**	**2015[2]**	**2014[2]**
Net sales	$ 71,309	$ 68,619	$ 65,017	$ 59,074	$ 56,223
Gross margin	22,908	22,434	21,674	19,933	18,987
Operating income	4,018	6,586	5,846	4,971	4,792
Net earnings	2,314	3,447	3,093	2,546	2,698
Basic earnings per common share	2.84	4.09	3.48	2.73	2.71
Diluted earnings per common share	2.84	4.09	3.47	2.73	2.71
Dividends per share	$ 1.85	$ 1.58	$ 1.33	$ 1.07	$ 0.87
Selected Balance Sheet Data					
Total assets	$ 34,508	$ 35,291	$ 34,408	$ 31,266	$ 31,721
Long-term debt, excluding current maturities	$ 14,391	$ 15,564	$ 14,394	$ 11,545	$ 10,806

[1] *Effective February 3, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and all related amendments, using the modified retrospective method. Therefore, results for reporting periods beginning after February 2, 2018 are presented under ASU 2014-09, while comparative prior period amounts have not been restated and continue to be presented under accounting standards in effect in those periods. See Note 1 to the consolidated financial statements for additional information on the impacts of adopting this new revenue recognition guidance.*

[2] *In the fourth quarter of fiscal 2018, the Company changed its method of accounting for shipping and handling costs from the Company's stores, distribution centers, and other locations to customers. Under the new accounting principle, shipping and handling costs related to the delivery of products from the Company to customers are included in cost of sales, whereas they were previously presented in selling, general, and administrative expense, and depreciation and amortization. Amounts presented for fiscal years 2018, 2017, 2016, 2015, and 2014 reflect adjusted amounts in accordance with this accounting principle change. See Note 2 to the consolidated financial statements included herein for additional information on the accounting principle change.*

[3] *Fiscal 2016 contained 53 weeks, while all other years contained 52 weeks.*

[4] *Fiscal 2016 includes the acquisition of RONA inc. See Note 4 to the consolidated financial statements included in this Annual Report.*

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the three-year period ended February 1, 2019 (our fiscal years 2018, 2017 and 2016). Fiscal year 2016 contains 53 weeks of operating results compared to fiscal years 2018 and 2017 which contain 52 weeks. Unless otherwise noted, all references herein for the years 2018, 2017 and 2016 represent the fiscal years ended February 1, 2019, February 2, 2018 and February 3, 2017, respectively. We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. This discussion should be read in conjunction with our consolidated financial statements and notes to the consolidated financial statements included in this Annual Report that have been prepared in accordance with accounting principles generally accepted in the United States of America. This discussion and analysis is presented in six sections:

- Executive Overview
- Operations
- Financial Condition, Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Contractual Obligations and Commercial Commitments
- Critical Accounting Policies and Estimates

During the fourth quarter of fiscal 2018, we changed our method of accounting related to the classification of customer delivery and shipping costs. Under our new accounting principle, shipping and handling costs related to the delivery of products from the Company to customers are included in costs of sales, whereas previously, they were included in selling, general and administrative expense as well as depreciation and amortization. Amounts presented for fiscal years 2018, 2017, and 2016 reflect adjusted amounts in accordance with this accounting principle change. See Note 2 to the consolidated financial statements included herein for additional information on the accounting principle change.

EXECUTIVE OVERVIEW

Net sales for fiscal 2018 increased 3.9% over fiscal year 2017 to $71.3 billion. The increase in total sales was driven by an increase in comparable sales, the adoption of the revenue recognition accounting standard update (ASU) 2014-09, and new stores. Comparable sales increased 2.4% over fiscal year 2017, driven by a comparable average ticket increase of 3.4%, offset by a decrease in comparable transactions of 1.1%. Net earnings for fiscal 2018 decreased 32.9% to $2.3 billion. Diluted earnings per common share decreased 30.5% in fiscal year 2018 to $2.84 from $4.09 in 2017. As further discussed below, during fiscal year 2018, we completed a strategic reassessment of the business resulting in total pre-tax charges of $1.1 billion, and we recognized a goodwill impairment charge of $952 million. The year to date pre-tax charges totaling $2.1 billion decreased diluted earnings per share by $2.27. Adjusting 2018 and 2017 amounts for certain significant discrete items not originally contemplated in the business outlooks for those respective years, adjusted diluted earnings per common share increased 16.4% in fiscal year 2018 to $5.11 from $4.39 in 2017 (see discussion on non-GAAP financial measures beginning on page 25).

For 2018, cash flows from operating activities were approximately $6.2 billion, with $1.2 billion used for capital expenditures. Continuing to deliver on our commitment to return excess cash to shareholders, the Company repurchased 31.2 million shares of stock through the share repurchase program for $3.0 billion and paid $1.5 billion in dividends during the year.

During the last six months of fiscal 2018, we have had a comprehensive reassessment of the business, established a new leadership team, and worked with that team to develop action plans to improve performance, improve in-stocks and drive a better customer experience. We have sharpened our focus on retail fundamentals, aligned our leadership team to improve our decision-making and execution, and aligned our portfolio to concentrate on our core home improvement business. We have rationalized our store inventory to remove clutter and reduce lower-performing inventory, and we are now investing in top-selling items in job lot quantities for our Pro customer.

The 2018 strategic reassessment of the business was part of our focus to build a sustainable foundation to position the Company for long-term success. During the third quarter of 2018, we committed to exit our Orchard Supply Hardware (Orchard) operations, as well as close 20 under-performing stores across the U.S. and 31 locations in Canada, including 27 stores and 4 other Canadian locations. In addition, we also made the decision to pursue an exit of certain non-core activities within our U.S. home improvement business, specifically Alacrity Renovation Services and Iris Smart Home. In the fourth quarter of 2018, we announced plans to pursue an exit of our Mexico retail operations consisting of 13 stores and are currently exploring exit alternatives. In addition, during the fourth quarter of 2018, we made the decision to eliminate our Project Specialists Interiors (PSI) position. Total pre-tax charges associated with these decisions were $1.1 billion for fiscal year 2018.

In addition, our fourth quarter annual goodwill impairment review resulted in a non-cash goodwill impairment charge of $952 million related to our Canadian operations (Canadian goodwill impairment). Given the softening outlook for the Canadian housing market, we determined that the book value of this business exceeded its fair market value. This write-down eliminated all goodwill associated with our Canadian business.

As we transition into 2019, we will remain focused on our mission of delivering the right home improvement products, with the best service and value, across every channel and community we serve. We intend to achieve this mission by winning in four key areas including driving merchandising excellence, transforming our supply chain, delivering operational efficiency, and intensifying customer engagement.

First, delivering merchandising excellence means having the right products in the right place at the right time so our customers can shop any way they choose. To do this, we are working to improve productivity, drive localization and streamline our reset process to improve execution, as well as improve digital experiences. Second, we intend to transform our supply chain to enhance the overall customer experience by advancing our fulfillment and delivery capabilities, and delivering operational excellence. We want to serve customers the way they want to be served. Third, to deliver operational efficiency, we intend to focus on simplifying store operations and work to improve our in-stock execution to better capitalize on the traffic we are driving to both our stores and online. And, as a company, we intend to become more operationally efficient. Finally, customer engagement is the fourth focus area and includes winning the Pro customer. We have significant opportunity to grow this portion of our business by focusing on competitive pricing, in-stocks, carrying the brands that are important to Pro customers, consistent service levels, and providing a differentiated experience.

Overall, we are making progress in our business. We are beginning to see positive results from merchandising pilots and improvement in performance in key categories, such as Paint, and are leveraging our improved reset process to better position us for the Spring selling season. In addition, we continue to see strong customer response to CRAFTSMAN® with market share gains in each product category since introducing the brand. We are also seeing positive results from our investment in job lot quantities to better meet the needs of the Pro customer. Although we still have work to do to transform this company, our 2019 four key focus areas demonstrate that we are aligned on the right initiatives to achieve our long-term targets.

OPERATIONS

The following tables set forth the percentage relationship to net sales of each line item of the consolidated statements of earnings, as well as the percentage change in dollar amounts from the prior year. This table should be read in conjunction with the following discussion and analysis and the consolidated financial statements, including the related notes to the consolidated financial statements.

			Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year[1]	**Percentage Increase / (Decrease) in Dollar Amounts from Prior Year[1]**
	2018[2]	**2017[2]**	**2018 vs. 2017**	**2018 vs. 2017**
Net sales	**100.00%**	**100.00%**	**N/A**	**3.9 %**
Gross margin	**32.12**	**32.69**	**(57)**	**2.1**
Expenses:				
Selling, general and administrative	24.41	21.04	337	20.6
Depreciation and amortization	2.07	2.05	2	5.2
Operating income	**5.64**	**9.60**	**(396)**	**(39.0)**
Interest - net	0.88	0.92	(4)	(1.3)
Loss on extinguishment of debt	—	0.68	(68)	(100.0)
Pre-tax earnings	**4.76**	**8.00**	**(324)**	**(38.2)**
Income tax provision	1.52	2.98	(146)	(47.1)
Net earnings	**3.24%**	**5.02%**	**(178)**	**(32.9)%**

			Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year[1]	**Percentage Increase / (Decrease) in Dollar Amounts from Prior Year[1]**
	2017[2]	**2016[2]**	**2017 vs. 2016**	**2017 vs. 2016**
Net sales	**100.00%**	**100.00%**	**N/A**	**5.5 %**
Gross margin	**32.69**	**33.34**	**(65)**	**3.5**
Expenses:				
Selling, general and administrative	21.04	22.12	(108)	0.5
Depreciation and amortization	2.05	2.23	(18)	(3.4)
Operating income	**9.60**	**8.99**	**61**	**12.6**
Interest - net	0.92	0.99	(7)	(2.0)
Loss on extinguishment of debt	0.68	—	68	N/A
Pre-tax earnings	**8.00**	**8.00**	**—**	**5.5**
Income tax provision	2.98	3.24	(26)	(3.2)
Net earnings	**5.02%**	**4.76%**	**26**	**11.5 %**

[1] *The fiscal year ended February 3, 2017 had 53 weeks. The fiscal years ended February 1, 2019 and February 2, 2018 had 52 weeks.*

[2] *In the fourth quarter of fiscal 2018, we changed our method of accounting for shipping and handling costs from the Company's stores, distribution centers, and other locations to customers. Under the new accounting principle, shipping and handling costs related to the delivery of products from the Company to customers are included in costs of sales, whereas they were previously included in selling, general, and administrative expense, and depreciation and amortization. Amounts presented for fiscal years 2018, 2017, and 2016 reflect adjusted amounts in accordance with this accounting principle change.*

Other Metrics		2018		2017		2016
Comparable sales increase [2]		2.4 %		4.0 %		4.2 %
Total customer transactions (in millions) [1]		941		953		945
Average ticket [3]	$	75.79	$	72.00	$	68.83
At end of year:						
Number of stores		2,015		2,152		2,129
Sales floor square feet (in millions)		209		215		213
Average store size selling square feet (in thousands) [4]		104		100		100
Return on average assets [5]		6.4 %		9.5 %		8.9 %
Return on average shareholders' equity [6]		43.8 %		59.2 %		44.4 %
Return on invested capital [7]		12.8 %		18.8 %		15.8 %

1 *The fiscal year ended February 3, 2017 had 53 weeks. The fiscal years ended February 1, 2019 and February 2, 2018 had 52 weeks.*

2 *A comparable location is defined as a retail location that has been open longer than 13 months. A location that is identified for relocation is no longer considered comparable in the month of its relocation. The relocated location must then remain open longer than 13 months to be considered comparable. A location we have decided to exit is no longer considered comparable as of the beginning of the month in which we announce its exit. Acquired locations are included in the comparable sales calculation beginning in the first full month following the first anniversary of the date of the acquisition. Comparable sales include online sales, which positively impacted fiscal 2018 and fiscal 2017 by approximately 80 basis points and 120 basis points, respectively. Online sales did not have a meaningful impact on fiscal 2016. The comparable store sales calculation for fiscal 2016 included in the preceding table was calculated using sales for a comparable 53-week period.*

3 *Average ticket is defined as net sales divided by the total number of customer transactions.*

4 *Average store size selling square feet is defined as sales floor square feet divided by the number of stores open at the end of the period. The average Lowe's-branded home improvement store has approximately 112,000 square feet of retail selling space.*

5 *Return on average assets is defined as net earnings divided by average total assets for the last five quarters.*

6 *Return on average shareholders' equity is defined as net earnings divided by average shareholders' equity for the last five quarters.*

7 *Return on invested capital is a non-GAAP financial measure. See below for additional information and a reconciliation to the most comparable GAAP measure.*

Non-GAAP Financial Measures

Return on Invested Capital

Return on Invested Capital (ROIC) is calculated using a non-GAAP financial measure. We believe ROIC is a meaningful metric for investors because it represents management's measure of how effectively the Company is using capital to generate profits. Although ROIC is a common financial metric, numerous methods exist for calculating ROIC. Accordingly, the method used by our management to calculate ROIC may differ from the methods other companies use to calculate their ROIC. We encourage you to understand the methods used by another company to calculate its ROIC before comparing its ROIC to ours.

We define ROIC as trailing four quarters' net operating profit after tax (NOPAT) divided by the average of ending debt and equity for the last five quarters. NOPAT is a non-GAAP financial measure, and net earnings is considered to be the most comparable GAAP financial measure to NOPAT. The calculation of ROIC, together with a reconciliation of NOPAT to net earnings, the most comparable GAAP financial measure, is as follows:

(In millions, except percentage data)	2018	2017	2016
Calculation of Return on Invested Capital			
Numerator			
Net earnings	$ 2,314	$ 3,447	$ 3,093
Plus:			
Interest expense - net	624	633	645
Loss on extinguishment of debt	—	464	—
Provision for income taxes	1,080	2,042	2,108
Net operating profit	4,018	6,586	5,846
Less:			
Income tax adjustment [1]	1,278	2,450	2,370
Net operating profit after tax	$ 2,740	$ 4,136	$ 3,476
Denominator			
Average debt and equity [2]	$ 21,381	$ 21,999	$ 21,958
Return on invested capital	**12.8 %**	**18.8 %**	**15.8 %**

1 *Income tax adjustment is defined as net operating profit multiplied by the effective tax rate, which was 31.8%, 37.2%, and 40.5% for 2018, 2017, and 2016, respectively.*

2 *Average debt and equity is defined as average debt, including current maturities and short-term borrowings, plus total equity for the last five quarters.*

Table of Contents

Adjusted Diluted Earnings Per Share
Adjusted diluted earnings per share is considered a non-GAAP financial measure. The Company believes this non-GAAP financial measure provides useful insight for analysts and investors in evaluating what management considers the Company's core financial performance. Adjusted diluted earnings per share excludes the impact of certain discrete items not contemplated in the Company's business outlooks for 2018, 2017, and 2016. Unless otherwise noted, the income tax effect of these adjustments is calculated using the marginal rates for the respective periods.

Adjusted diluted earnings per share should not be considered an alternative to, or more meaningful indicator of, the Company's diluted earnings per common share as prepared in accordance with GAAP. The Company's methods of determining this non-GAAP financial measure may differ from the method used by other companies for this or similar non-GAAP financial measures. Accordingly, these non-GAAP measures may not be comparable to the measures used by other companies.

	2018			2017		
	Pre-Tax Earnings	Tax	Net Earnings	Pre-Tax Earnings	Tax	Net Earnings
Diluted earnings per share, as reported			**$ 2.84**			**$ 4.09**
Non-GAAP Adjustments - per share impacts						
Canadian goodwill impairment[1]	1.17	(0.03)	1.14	—	—	—
Orchard Supply Hardware charges[2]	0.68	(0.17)	0.51	—	—	—
U.S. & Canada charges [3]	0.33	(0.08)	0.25	—	—	—
Mexico impairment charges [4]	0.30	0.01	0.31	—	—	—
Non-core activities charges [5]	0.06	(0.02)	0.04	—	—	—
Project Specialists Interiors charge [6]	0.02	—	0.02			
Impact of tax reform [7]	—	—	—	—	0.02	0.02
One-time cash bonus attributable to tax reform [8]	—	—	—	0.08	(0.03)	0.05
Gain on sale of interest in Australian joint venture [9]	—	—	—	(0.11)	—	(0.11)
Loss on extinguishment of debt [10]	—	—	—	0.55	(0.21)	0.34
Adjusted diluted earnings per share			**$ 5.11**			**$ 4.39**

1 *Represents costs associated with the goodwill impairment of the Company's Canadian operations. The majority of the charge was non-deductible for tax purposes, and therefore, had an insignificant tax impact.*

2 *Represents costs associated with the Company's decision to close all Orchard Supply Hardware locations as part of a strategic reassessment of our business. Costs included long-lived asset impairments, discontinued projects, accelerated depreciation and amortization, severance and lease obligation costs.*

3 *Represents costs associated with the Company's decision to close 20 U.S. stores and 31 stores and other locations in Canada during 2018 as part of a strategic reassessment of our business. Costs included long-lived asset impairments, accelerated depreciation and amortization, severance and lease obligation costs.*

4 *Represents impairment charges associated with the Company's decision to exit its retail operations in Mexico as part of a strategic reassessment of our business. This decision resulted in negative tax impacts associated with the re-capture of previously deducted operating losses and other non-deductible amounts.*

5 *Represents costs associated with the Company's decision to exit certain non-core activities within its U.S. home improvement business as part of a strategic reassessment of our business. Costs included long-lived asset impairment, severance and lease obligation costs, and inventory write-down.*

6 *Represents severance obligations associated with the elimination of the Project Specialists Interiors position as part of a strategic reassessment of our business.*

7 *Represents the net impact related to the passage of the Tax Cuts and Jobs Act of 2017.*

8 *Represents the one-time cash bonus for eligible hourly employees attributable to the passage of the Tax Cuts and Jobs Act of 2017.*

[9] *Represents the gain from the sale of the Company's interest in its Australian joint venture with Woolworths. This gain had no impact on the Company's income tax provision due to the reduction of a previously established deferred tax valuation allowance.*

[10] *Represents the loss on extinguishment of debt in connection with a $1.6 billion cash tender offer.*

Fiscal 2018 Compared to Fiscal 2017

Net Sales – Net sales increased 3.9% to $71.3 billion in 2018. The increase in total sales was driven primarily by 2.4% comparable sales growth, the adoption of the revenue recognition accounting standard ASU 2014-09, which primarily resulted in a reclassification of profit sharing income associated with the proprietary credit program from SG&A to sales (+1.1%), and new stores (+0.5%). The comparable sales increase of 2.4% in 2018 was driven primarily by a 3.4% increase in comparable average ticket offset by a 1.1% decrease in comparable customer transactions. Comparable sales increases during each quarter of the fiscal year, as reported, were 0.6% in the first quarter, 5.2% in the second quarter, 1.5% in the third quarter, and 1.7% in the fourth quarter.

During 2018, we experienced comparable sales increases in eight of 11 product categories. We experienced low single-digit negative comparable sales in Flooring and Fashion Fixtures, primarily due to inventory out-of-stocks, poor reset execution, and assortment misalignment, as well as flat comparable sales in Paint. Comparable sales increases were above the company average in Appliances, Lumber & Building Materials, Lawn & Garden, and Rough Plumbing & Electrical. Strong brand and service advantages in Appliances drove strong comparable sales during the year. Lumber & Building Materials benefited from increased demand from the Pro customer. Strength in Lawn & Garden was driven primarily by lawn care, live goods, and landscape products. We also achieved strong comparable sales in Rough Plumbing & Electrical driven by continued improvements in brand relevance and demand from the Pro customer. Geographically, 12 of 14 U.S. regions experienced positive comparable sales with the strongest results in the South and North, with the remaining two regions experiencing approximately flat comparable sales.

During the fourth quarter of 2018, we experienced comparable sales increases in eight of 11 product categories. Comparable sales increases were above the company average in Lawn & Garden, Appliances, Tools & Hardware, Lumber & Building Materials, and Paint. Strength in Lawn & Garden was driven primarily by landscape products and live goods. Strong brand and service advantages in Appliances drove comparable sales during the quarter. Strength in Tools & Hardware was primarily driven by promotional activity as well as strong customer response to the roll-out of CRAFTSMAN® products. We achieved strong comparable sales in Lumber & Building materials driven by continued recovery efforts from hurricane activity and strong demand from the Pro customer. Performance in Paint was supported by our focus on retail fundamentals, as well as our exclusive partnership with Sherwin Williams®. We experienced low single-digit negative comparable sales in Flooring, Fashion Fixtures, and Rough Plumbing & Electrical due primarily to poor reset execution. In addition, Rough Plumbing & Electrical was negatively impacted by commodity movement, as well as comparisons to hurricane related activity in the prior year. Geographically, 11 of 14 U.S. regions experienced increases in comparable sales. Three regions experienced negative comparable sales, including the Houston, TX and Tampa, FL markets, which faced tough prior year comparisons from Hurricanes Harvey and Irma.

Gross Margin – Gross margin as a percentage of sales for 2018 decreased 57 basis points compared to 2017. Gross margin was negatively impacted by approximately 60 basis points due to our inventory rationalization efforts to eliminate less productive SKUs and reduce clutter in our stores, along with reset-related clearance activity. In addition, we experienced approximately 40 basis points of deleverage due to increased distribution and delivery costs and approximately 15 basis points of deleverage due to product mix shifts. This was partially offset by approximately 80 basis points due to the adoption of the revenue recognition accounting standard ASU 2014-09, which primarily resulted in a reclassification of profit sharing income associated with the proprietary credit program from SG&A to sales.

During the fourth quarter of 2018, gross margin decreased 74 basis points as a percentage of sales. Gross margin was negatively impacted by approximately 55 basis points of pressure from substitute items that were offered over Black Friday weekend due to inventory shortages on advertised items, as well as accelerated clearance activity for holiday inventory in order to better position us for the Spring selling season. We also experienced approximately 45 basis points of deleverage from distribution and delivery costs as we added new supply chain facilities to the network, coupled with increases in transportation costs, as well as an increase in customer deliveries. In addition, we experienced approximately 40 basis points of deleverage due to tariffs and other cost increases, and 25 basis points of deleverage due to product mix shifts. This was partially offset by 108 basis points due to the adoption of the revenue recognition accounting standard ASU 2014-09.

SG&A – SG&A expense for 2018 deleveraged 337 basis points as a percentage of sales compared to 2017. This was primarily driven by 135 basis points of deleverage due to the goodwill impairment charge associated with our Canadian business, 87 basis points of deleverage due to the adoption of the revenue recognition accounting standard ASU 2014-09, which primarily resulted in a reclassification of profit sharing income associated with the proprietary credit program from SG&A to sales, and the following associated with the strategic reassessment of the Company during fiscal 2018:

- 66 basis points of deleverage due to the closing of all Orchard Supply Hardware locations, associated with long-lived asset impairments and discontinued projects, severance and lease obligation costs;

- 35 basis points of deleverage related to the decision to exit retail operations in Mexico, associated with impairment charges;
- 31 basis points of deleverage due to the closing of 20 under-performing stores in the U.S. and 31 Canadian stores and other locations, associated with long-lived asset impairment, severance and lease obligation costs, and;
- Four basis points of deleverage due to the exit of certain non-core activities and the elimination of the Project Specialists Interiors position.

These were partially offset by 15 basis points of leverage in operating salaries.

For the fourth quarter of 2018, SG&A expense deleveraged 992 basis points as a percentage of sales compared to the fourth quarter of 2017. This was primarily driven by 617 basis points of deleverage due to the goodwill impairment charge associated with our Canadian business, 108 basis points of deleverage due to adoption of the revenue recognition accounting standard ASU 2014-09, and the following associated with the strategic reassessment of the Company during fiscal 2018:

- 144 basis points of deleverage related to the decision to exit retail operations in Mexico, associated with impairment charges;
- 135 basis points of deleverage due to the closing of all Orchard Supply Hardware locations, associated with lease obligations costs;
- 64 basis points of deleverage due to the closing of 20 under-performing stores in the U.S. and 31 Canadian stores and other locations, associated with severance and lease obligation costs, and;
- 10 basis points of deleverage due to the exit of certain non-core activities and the elimination of the Project Specialists.

These were partially offset by 52 basis points of leverage in operating salaries from expense management and 39 basis points of leverage in incentive compensation due to lower attainment levels.

Depreciation and Amortization – Depreciation and amortization expense deleveraged two basis points for 2018 compared to 2017, primarily due to deleverage of 13 basis points of accelerated depreciation related to the closing of all Orchard Supply Hardware locations and seven basis points of accelerated depreciation related to the closing of 20 U.S. and 31 Canadian stores and other locations announced in the third quarter of 2018. These were partially offset by assets becoming fully depreciated. Property, less accumulated depreciation, decreased to $18.4 billion at February 1, 2019, compared to $19.7 billion at February 2, 2018. As of February 1, 2019 and February 2, 2018, we owned 83% and 79% of our stores, respectively, which included stores on leased land.

Interest – Net – Net interest expense is comprised of the following:

(In millions)	2018	2017
Interest expense, net of amount capitalized	$ 642	$ 638
Amortization of original issue discount and loan costs	10	11
Interest income	(28)	(16)
Interest - net	**$ 624**	**$ 633**

Net interest expense in 2018 decreased primarily as a result of the prior year cash tender offer to purchase and retire $1.6 billion aggregate principal amount of our outstanding notes in the first quarter of 2017 and the payoff of scheduled debts at maturity. In addition, interest income increased over the prior year due to higher average interest rates associated with the Company's cash balances. These were partially offset by the issuance of unsecured notes in May 2017, as well as an increase in interest rates over the prior year.

Loss on Extinguishment of Debt - During the first quarter of 2017, we repurchased and retired $1.6 billion aggregate principal amount of our outstanding debt resulting in a loss on extinguishment of debt of $464 million.

Income Tax Provision - Our effective income tax rate was 31.8% in 2018 compared to 37.2% in 2017. The Company was impacted by the passage of the Tax Cuts and Job Act (the Tax Act), effective January 1, 2018, which provided a reduction in the statutory federal tax rate from 35% to 21%. For 2018, the favorable impact of the tax reform was offset by the majority of the Canadian goodwill impairment not being deductible for tax purposes, as well as negative tax impacts associated with the decision to exit Mexico, which is expected to result in the recapture of previously deducted operating losses and other non-deductible losses.

The effective passage date of the Tax Act resulted in the usage of a blended rate for fiscal 2017 of 33.7%. The rate was also impacted by the one-time repatriation tax. The new rate of 21% was applied against the Company's deferred tax balances in fiscal 2017, which resulted in a decrease of its overall deferred tax assets for that year.

Our effective income tax rate for the fourth quarter of 2018 was negatively impacted by the non-deductibility of a majority of the goodwill impairment charge related to our Canadian business, as well as the negative tax consequences of exiting our retail operations in Mexico. The tax impacts of these items were $292 million and $83 million, respectively. In addition, the enactment of the Tax Act, effective January 1, 2018, decreased the statutory Federal rate from 35% to 21%.

Fiscal 2017 Compared to Fiscal 2016

For the purpose of the following discussion, comparable store sales, comparable store average ticket, and comparable store customer transactions are based upon comparable 52-week periods.

Net Sales – Net sales increased 5.5% to $68.6 billion in 2017. The increase in total sales was driven by 4.0% comparable sales growth, the addition of RONA during the second quarter of 2016 (+2.2%), new stores (+0.7%), and the acquisition of Maintenance Supply Headquarters (+0.3%), partially offset by the impact of the 53rd week in 2016 and resulting week shift in 2017 (-1.3%). RONA retail sales are included in comparable sales beginning in Q2 2017. The comparable sales increase of 4.0% in 2017 was driven primarily by a 4.1% increase in comparable average ticket offset by a 0.1% decrease in comparable customer transactions. Comparable sales increases during each quarter of the fiscal year, as reported, were 1.9% in the first quarter, 4.5% in the second quarter, 5.7% in the third quarter, and 4.1% in the fourth quarter.

All of our product categories experienced comparable sales increases for the year. During 2017, we experienced comparable sales increases above the company average in Appliances, Lumber & Building Materials, Rough Plumbing & Electrical, and Tools & Hardware. Strong brand and service advantages in Appliances, as well as our continued investment in customer experience both in-store and online, drove strong comparable sales during the year. Lumber & Building Materials benefited from an increased demand for hurricane-related products, an increase in Pro demand, and inflation. We also achieved strong comparable sales in Rough Plumbing & Electrical and Tools & Hardware driven by continued improvements in brand relevance and demand from the Pro customer. Geographically, all of our 14 U.S. regions experienced positive comparable store sales.

During the fourth quarter of 2017, we experienced comparable sales increases in nine of 11 product categories, as well as flat comparable sales in Lawn & Garden and Fashion Fixtures. Comparable sales increases were above the company average in Appliances, Lumber & Building Materials, Rough Plumbing & Electrical, and Tools & Hardware. Strong brand and service advantages in Appliances, as well as our continued investment in customer experience both in-store and online, drove double digit comparable sales during the quarter. We achieved strong comparable sales in Lumber & Building materials driven by continued recovery efforts from Hurricane Irma and Harvey, inflation, and strong demand from the Pro customer. Our holiday performance combined with our strategy to serve demand for critical items customers needed during colder temperatures and winter storms drove performance in Rough Plumbing & Electrical and Tools & Hardware. Geographically, 13 of 14 U.S. regions experienced increases in comparable sales.

Gross Margin – Gross margin of 32.69% for 2017 represented a 65 basis point decrease from 2016. Gross margin was negatively impacted approximately 25 basis points due to competitive actions, approximately 10 basis points due to mix of products sold, and approximately 10 basis points due to damaged, clearance and non-productive inventory. In addition, delivery costs negatively impacted gross margin by 21 basis points.

During the fourth quarter of 2017, gross margin of 32.04% decreased 99 basis points as a percentage of sales. Gross margin was negatively impacted approximately 45 basis points due to rate pressures associated with damaged, clearance and non-productive inventory, as well as competitive actions, and inflation in lumber. In addition, gross margin was negatively impacted by approximately 10 basis points due to mix of products sold and approximately 10 basis points due to higher shrink rates. Delivery costs also negatively impacted gross margin by 31 basis points.

SG&A – SG&A expense for 2017 leveraged 108 basis points as a percentage of sales compared to 2016. This was primarily driven by 59 basis points of leverage attributable to the prior year non-cash impairment charge related to the investment in the Australian joint venture and the current year gain on sale of our interest in the Australian joint venture, 28 basis points of leverage in operating salaries, 15 basis points of leverage primarily due to the prior year write-off of canceled technology-enabled projects, and 12 basis points of leverage associated with goodwill and long-lived asset impairments related to Orchard operations in the prior year. These were partially offset by 12 basis points of deleverage due to the prior year settlement of the foreign currency option contract entered into in advance of the RONA acquisition, and nine basis points of deleverage in risk insurance.

For the fourth quarter of 2017, SG&A expense leveraged three basis points as a percentage of sales compared to the fourth quarter of 2016. This was primarily driven by 53 basis points of leverage associated with severance and related costs in the prior year for organizational changes in the stores, distribution centers, and corporate offices, 32 basis points in incentive compensation due to lower attainment levels compared to the prior year, and 20 basis points of leverage in employee insurance costs. These were partially offset by 42 basis points of deleverage due to the one-time Tax Reform bonus and 14 basis points of deleverage in advertising as a result of our efforts to amplify consumer messaging. Certain other costs also deleveraged as a result of the week shift related to the 53rd week in the prior fiscal year.

Depreciation and Amortization – Depreciation and amortization expense leveraged 18 basis points for 2017 compared to 2016 primarily due to the increase in sales, as well as assets becoming fully depreciated, partially offset by the incremental expense due to the acquisition of Maintenance Supply Headquarters. Property, less accumulated depreciation, decreased to $19.7 billion at February 2, 2018, compared to $19.9 billion at February 3, 2017. As of February 2, 2018 and February 3, 2017, we owned 79% of our stores, which included stores on leased land.

Depreciation and amortization expense for the fourth quarter of 2017 was flat compared to the prior year.

Interest – Net – Net interest expense is comprised of the following:

(In millions)		**2017**		**2016**
Interest expense, net of amount capitalized	$	638	$	647
Amortization of original issue discount and loan costs		11		10
Interest income		(16)		(12)
Interest - net	**$**	**633**	**$**	**645**

Net interest expense decreased in 2017 primarily as a result of the cash tender offer to purchase and retire $1.6 billion aggregate principal amount of our outstanding notes, the payoff of scheduled debts at maturity, and the favorable settlement of accrued interest related to uncertain tax issues. These were partially offset by the issuance of unsecured notes in April 2016 and May 2017, respectively.

Loss on Extinguishment of Debt - During the first quarter of 2017, we repurchased and retired $1.6 billion aggregate principal amount of our outstanding debt resulting in a loss on extinguishment of debt of $464 million.

Income Tax Provision - Our effective income tax rate was 37.2% in 2017 compared to 40.5% in 2016. During 2017, the Company was impacted by the passage of the Tax Act, which provided a reduction in the statutory Federal rate from 35% to 21%. The effective date of January 1, 2018, resulted in the usage of a blended rate for the year of 33.7% for the Company. The new rate of 21% was applied against the Company's deferred balances resulting in a decrease of its overall deferred tax assets. The rate was also impacted by the one-time repatriation tax enacted under Internal Revenue Code Section 965. In 2016, final and temporary regulations were issued under Internal Revenue Code Section 987, which negatively impacted the Company's income tax rate due to the adjustment of deferred tax assets associated with cumulative currency translation adjustments related to certain of the Company's international operations. In addition, the Company recorded a deferred tax asset related to the investment in the Australian joint venture with Woolworths associated with the non-cash impairment charge that occurred during 2016. The deferred tax asset associated with this loss was offset with the establishment of a full valuation allowance due to the fact the benefit of this loss can only be realized to the extent the Company has available capital gains for offset, and no present or future capital gains have been identified through which this deferred tax asset can be realized.

Our effective income tax rates were 41.3% and 40.3% for the three months ended February 2, 2018, and February 3, 2017, respectively. The increase in the effective income tax rate is primarily due to the enactment of the Tax Act effective January 1, 2018. The federal rate was lowered from 35% to 21% as part of the Tax Act, which resulted in a tax benefit of $58 million for the year. The Company remeasured its deferred tax assets and liabilities using the new federal rate, which led to a one-time tax expense of approximately $56 million to reduce the Company's overall federal deferred tax asset. In addition, the Company recorded a $22 million provisional tax expense for the one-time transition tax on unrepatriated earnings of foreign subsidiaries.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Cash flows from operations, supplemented with our short-term and long-term borrowings, have been sufficient to fund our operations while allowing us to make strategic investments that will grow our business, and to return excess cash to shareholders in the form of dividends and share repurchases. We believe that our sources of liquidity will continue to be adequate to fund our operations and investments to grow our business, repay our debt as it becomes due, pay dividends, and fund our share repurchases over the next 12 months.

Cash Flows Provided by Operating Activities

(In millions)	2018	2017	2016
Net cash provided by operating activities	$ 6,193	$ 5,065	$ 5,617

Cash flows from operating activities continued to provide the primary source of our liquidity. The increase in net cash provided by operating activities for 2018, when compared to 2017, was driven primarily by changes in working capital.

The decrease in net cash provided by operating activities for 2017, when compared to 2016, was driven primarily by changes in working capital and was partially offset by an increase in net earnings, adjusted for non-cash expenses.

Cash Flows Used in Investing Activities

(In millions)	2018	2017	2016
Net cash used in investing activities	$ (1,080)	$ (1,441)	$ (3,361)

Net cash used in investing activities primarily consist of transactions related to capital expenditures and business acquisitions.

Capital expenditures

Our capital expenditures generally consist of investments in our strategic initiatives to enhance our ability to serve customers, existing stores, and expansion plans. Capital expenditures were $1.2 billion in 2018, $1.1 billion in 2017, and $1.2 billion in 2016. The following table provides the allocation of capital expenditures for 2018, 2017, and 2016:

	2018	2017	2016
Existing store investments [1]	60 %	50 %	55 %
Strategic initiatives [2]	20 %	10 %	10 %
New stores and international [3]	20 %	40 %	35 %
Total capital expenditures	100 %	100 %	100 %

[1] *Includes merchandising resets, facility repairs, replacements of IT and store equipment, among other specific efforts.*
[2] *Represents investments related to our strategic focus areas aimed at improving customers' experience and driving improved performance in*
the near and long term.
[3] *Represents expenditures primarily related to land purchases, buildings, and personal property for new store projects as well as expenditures related to our international operations.*

Our 2019 capital expenditures forecast is approximately $1.6 billion. The following table provides the allocation of our fiscal 2019 capital expenditures forecast:

	2019
Existing store investments	65 %
Strategic initiatives	20 %
New stores and international	15 %

Business Acquisitions

In 2017, we paid $509 million, net of cash received, to acquire Maintenance Supply Headquarters, in order to enable us to deepen and broaden our relationship with the Pro customer and better serve their needs. In 2016, we used $2.3 billion, net of cash received, to acquire RONA, in order to enable us to accelerate our growth strategy in the Canadian home improvement market. See Note 4 to the consolidated financial statements included herein for additional information regarding our business acquisitions.

Cash Flows Used in Financing Activities

(In millions)	2018	2017	2016
Net cash used in financing activities	$ (5,124)	$ (3,607)	$ (2,092)

Net cash used in financing activities primarily consist of transactions related to our short-term borrowings, long-term debt, share repurchases, and cash dividend payments.

Short-term Borrowing Facilities

In September 2018, the Company entered into a $1.75 billion five year unsecured revolving second amended and restated credit agreement (the Second Amended and Restated Credit Agreement) with a syndicate of banks. The Second Amended and Restated Credit Agreement amends and restates the Company's amended and restated credit agreement, dated November 23, 2016 (the Amended and Restated Credit Agreement), to among other things (i) extend the maturity date of the revolving credit facility to September 2023 and (ii) modify the revolving commitments of the existing lenders. In January 2019, the Company increased the aggregate availability under the Second Amended and Restated Credit Agreement by $230 million for a total of $1.98 billion available. Subject to obtaining commitments from the lenders and satisfying other conditions specified in the Second Amended and Restated Credit Agreement, the Company may increase the aggregate availability by an additional $270 million.

In September 2018, the Company entered into a $250 million unsecured 364-day credit agreement (the 364-Day Credit Agreement) with a syndicate of banks. The Company may request borrowings under the 364-Day Credit Agreement that are denominated in U.S. Dollar, Euro, Sterling, Canadian Dollar and other currencies approved by the administrative agent and the lenders. The Company must repay the aggregate principal amount of loans outstanding under the 364-Day Credit Agreement on the termination date in effect at such time (currently September 9, 2019). The Company may elect to convert all of the loans outstanding under the 364-Day Credit Agreement on the termination date into a term loan which the Company shall repay in full on the first anniversary date of the termination date.

The Second Amended and Restated Credit Agreement and the 364-Day Credit Agreement both support our commercial paper program. The amount available to be drawn under the Second Amended and Restated Credit Agreement and the 364-Day Credit Agreement is reduced by the amount of borrowings under our commercial paper program. All of our short-term borrowings in 2018, 2017, and 2016 were under the commercial paper program. Outstanding borrowings under the Company's commercial paper program were $722 million, with a weighted average interest rate of 2.81%, as of February 1, 2019, and $1.1 billion, with a weighted average interest rate of 1.85%, as of February 2, 2018. There were no outstanding borrowings under the Second Amended and Restated Credit Agreement or the 364-Day Credit Agreement as of February 1, 2019. There were no outstanding borrowings under the Amended and Restated Credit Agreement as of February 2, 2018. Our commercial paper program, along with cash flows generated from operations, is typically utilized during our fourth fiscal quarter to build inventory in anticipation of the spring selling season. The following table includes additional information related to our short-term borrowings for 2018, 2017, and 2016:

(In millions, except for interest rate data)	2018	2017	2016
Net change in short-term borrowings	$ (415)	$ 625	$ 466
Amount outstanding at year-end	$ 722	$ 1,137	$ 510
Maximum amount outstanding at any month-end	$ 892	$ 1,137	$ 658
Weighted-average interest rate of short-term borrowings outstanding	2.81 %	1.85 %	1.01 %

The Second Amended and Restated Credit Agreement and the 364-Day Credit Agreement contains customary representations, warranties, and covenants. We were in compliance with those covenants at February 1, 2019. See Note 9 to the consolidated financial statements included herein for additional information regarding our short-term borrowings.

Long-term Debt

The following table includes additional information related to the Company's long-term debt for 2018, 2017, and 2016:

(In millions)		2018		2017		2016
Net proceeds from issuance of long-term debt	$	—	$	2,968	$	3,267
Repayment of long-term debt	$	(326)	$	(2,849)	$	(1,173)

In 2018, we paid approximately $250 million to retire scheduled debts at maturity.

In 2017, we paid approximately $2.0 billion to purchase $1.6 billion of our higher coupon notes prior to maturity in connection with a cash tender offer. We issued $3.0 billion of unsecured notes to fund the tender offer, finance current year maturities, and for other general corporate purposes, which included share repurchases, capital expenditures, strategic investments, and working capital needs.

In 2016, we issued $3.3 billion of unsecured notes to fund the acquisition of RONA, finance current year maturities, and for other general corporate purposes, which included share repurchases, capital expenditures, strategic investments, and working capital needs.

Our ratio of debt to capital (equity plus debt) was 81.7% and 74.3% as of February 1, 2019, and February 2, 2018, respectively.

See Note 10 to the consolidated financial statements included herein for additional information regarding our long-term debt.

Share Repurchases

We have an ongoing share repurchase program, authorized by the Company's Board of Directors, that is executed through purchases made from time to time either in the open market or through private off-market transactions. We also withhold shares from employees to satisfy tax withholding liabilities. Shares repurchased are retired and returned to authorized and unissued status. The following table provides, on a settlement date basis, the total number of shares repurchased, average price paid per share, and the total amount paid for share repurchases for 2018, 2017, and 2016:

(In millions, except per share data)		2018		2017		2016
Total amount paid for share repurchases	$	3,037	$	3,192	$	3,595
Total number of shares repurchased		31.6		39.9		48.0
Average price paid per share	$	96.18	$	80.01	$	74.89

As of February 1, 2019, we had $13.9 billion remaining under our share repurchase program with no expiration date. We expect to repurchase shares totaling between $6.0 billion and $7.5 billion in 2019. See Note 11 to the consolidated financial statements included herein for additional information regarding share repurchases.

Dividends

In 2018, we increased our quarterly dividend payment 17% to $0.48 per share. Our dividend payment dates are established such that dividends are paid in the quarter immediately following the quarter in which they are declared. The following table provides additional information related to our dividend payments for 2018, 2017, and 2016:

(In millions, except per share data and percentage data)		2018		2017		2016
Total cash dividend payments	$	1,455	$	1,288	$	1,121

Dividends paid per share	$ 1.78	$ 1.52	$ 1.26
Dividend payout ratio	63 %	37 %	36 %

Capital Resources

We expect to continue to have access to the capital markets on both short-term and long-term bases when needed for liquidity purposes by issuing commercial paper or new long-term debt. The availability and the borrowing costs of these funds could be adversely affected, however, by a downgrade of our debt ratings or a deterioration of certain financial ratios. The table below reflects our debt ratings by Standard & Poor's (S&P) and Moody's as of April 1, 2019, which we are disclosing to enhance understanding of our sources of liquidity and the effect of our ratings on our cost of funds. Our debt ratings have enabled, and should continue to enable, us to refinance our debt as it becomes due at favorable rates in capital markets. Our commercial paper and senior debt ratings may be subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating. The lowering of our credit ratings during the fourth quarter of fiscal 2018 did not have a material impact on our access to liquidity or to our interest costs.

Debt Ratings	**S&P**	**Moody's**
Commercial Paper	A-2	P-2
Senior Debt	BBB+[1]	Baa1[2]
Outlook	**Stable**	**Stable**

[1] *On December 12, 2018, S&P lowered the issuer credit ratings of the Company's senior debt from A- to BBB+, with a Stable outlook.*
[2] *On December 12, 2018, Moody's lowered the issuer credit ratings of the Company's senior debt from A3 to Baa1, with a Stable outlook.*

There are no provisions in any agreements that would require early cash settlement of existing debt or leases as a result of a downgrade in our debt rating or a decrease in our stock price. In addition, we do not believe it will be necessary to repatriate significant cash and cash equivalents and short-term investments held in foreign affiliates to fund domestic operations.

OFF-BALANCE SHEET ARRANGEMENTS

Other than in connection with executing operating leases, we do not have any off-balance sheet financing that has, or is reasonably likely to have, a current or future material effect on our financial condition, cash flows, results of operations, liquidity, capital expenditures or capital resources.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes our significant contractual obligations at February 1, 2019:

	Payments Due by Period				
Contractual Obligations (in millions)	**Total**	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Long-term debt (principal amounts, excluding discount and debt issuance costs)	$ 14,865	$ 1,050	$ 1,526	$ 1,266	$ 11,023
Long-term debt (interest payments)	8,709	570	1,066	950	6,123
Capitalized lease obligations [1, 2]	1,266	133	177	173	783
Operating leases [1]	5,365	595	1,169	992	2,609
Purchase obligations [3]	1,022	564	438	20	—
Total contractual obligations	**$ 31,227**	**$ 2,912**	**$ 4,376**	**$ 3,401**	**$ 20,538**

	Amount of Commitment Expiration by Period				
Commercial Commitments (in millions)	**Total**	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Letters of Credit [4]	$ 59	$ 58	$ 1	$ —	$ —

Amounts do not include taxes, common area maintenance, insurance, or contingent rent because these amounts have historically been insignificant.

[2] *Amounts include imputed interest and residual values.*

[3] *Purchase obligations include agreements to purchase goods or services that are enforceable, are legally binding, and specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase obligations include firm commitments related to certain marketing and information technology programs, as well as purchases of merchandise inventory.*

[4] *Letters of credit are issued primarily for insurance and construction contracts.*

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated financial statements and notes to consolidated financial statements presented in this Annual Report requires us to make estimates that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosures of contingent assets and liabilities. We base these estimates on historical results and various other assumptions believed to be reasonable, all of which form the basis for making estimates concerning the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Our significant accounting policies are described in Note 1 to the consolidated financial statements included herein. We believe that the following accounting policies affect the most significant estimates and management judgments used in preparing the consolidated financial statements.

Merchandise Inventory

Description
We record an obsolete inventory reserve for the anticipated loss associated with selling inventories below cost. This reserve is based on our current knowledge with respect to inventory levels, sales trends and historical experience. During 2018, our reserve increased approximately $1 million to $78 million as of February 1, 2019.

We also record an inventory reserve for the estimated shrinkage between physical inventories. This reserve is based primarily on actual shrinkage results from previous physical inventories. During 2018, the inventory shrinkage reserve increased approximately $10 million to $222 million as of February 1, 2019.

In addition, we receive funds from vendors in the normal course of business, principally as a result of purchase volumes, sales, early payments or promotions of vendors' products. Generally, these vendor funds do not represent the reimbursement of specific, incremental and identifiable costs that we incurred to sell the vendor's product. Therefore, we treat these funds as a reduction in the cost of inventory as the amounts are accrued, and recognize these funds as a reduction of cost of sales when the inventory is sold. Funds that are determined to be reimbursements of specific, incremental and identifiable costs incurred to sell vendors' products are recorded as an offset to the related expense.

Judgments and uncertainties involved in the estimate
We do not believe that our merchandise inventories are subject to significant risk of obsolescence in the near term, and we have the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns or a deterioration in product quality could result in the need for additional reserves. Likewise, changes in the estimated shrink reserve may be necessary, based on the timing and results of physical inventories. We also apply judgment in the determination of levels of obsolete inventory and assumptions about net realizable value.

For vendor funds, we develop accrual rates based on the provisions of the agreements in place. Due to the complexity and diversity of the individual vendor agreements, we perform analyses and review historical purchase trends and volumes throughout the year, adjust accrual rates as appropriate and confirm actual amounts with select vendors to ensure the amounts earned are appropriately recorded. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met.

Effect if actual results differ from assumptions
We have not made any material changes in the methodology used to establish our inventory valuation or the related reserves for obsolete inventory or inventory shrinkage during the past three fiscal years. We believe that we have sufficient current and historical knowledge to record reasonable estimates for both of these inventory reserves. However, it is possible that actual results could differ from recorded reserves. A 10% change in either the amount of products considered obsolete or the weighted average estimated loss rate used in the calculation of our obsolete inventory reserve would have affected net earnings by approximately $5 million for 2018. A 10% change in the estimated shrinkage rate included in the calculation of our inventory shrinkage reserve would have affected net earnings by approximately $17 million for 2018.

We have not made any material changes in the methodology used to recognize vendor funds during the past three fiscal years. If actual results are not consistent with the assumptions and estimates used, we could be exposed to additional adjustments that could positively or negatively impact gross margin and inventory. However, substantially all receivables associated with these activities do not require subjective long-term estimates because they are collected within the following fiscal year. Adjustments to gross margin and inventory in the following fiscal year have historically not been material.

Long-Lived Asset Impairment

Description
We review the carrying amounts of locations whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. When evaluating locations for impairment, our asset group is at an individual location level, as that is the lowest level for which cash flows are identifiable. Cash flows for individual locations do not include an allocation of corporate overhead.

We evaluate locations for triggering events relating to long-lived asset impairment on a quarterly basis to determine when a location's asset may not be recoverable. For operating locations, our primary indicator that assets may not be recoverable is consistently negative cash flow for a 12-month period for those locations that have been open in the same location for a sufficient period of time to allow for meaningful analysis of ongoing operating results. Management also monitors other factors when evaluating operating locations for impairment, including individual locations' execution of their operating plans and local market conditions, including incursion, which is the opening of either other Lowe's locations or those of a direct competitor within the same market. We also consider there to be a triggering event when there is a current expectation that it is more likely than not that a given location will be closed significantly before the end of its previously estimated useful life.

A potential impairment has occurred if projected future undiscounted cash flows expected to result from the use and eventual disposition of the location's assets are less than the carrying amount of the assets. When determining the stream of projected future cash flows associated with an individual operating location, management makes assumptions, incorporating local market conditions, about key store variables including sales growth rates, gross margin and controllable expenses, such as store payroll and occupancy expense, as well as asset residual values or lease rates. An impairment loss is recognized when the carrying amount of the operating location is not recoverable and exceeds its fair value.

We use an income approach to determine the fair value of our individual operating locations, which requires discounting projected future cash flows. This involves making assumptions regarding both a location's future cash flows, as described above, and an appropriate discount rate to determine the present value of those future cash flows. We discount our cash flow estimates at a rate commensurate with the risk that selected market participants would assign to the cash flows. The selected market participants represent a group of other retailers with a market footprint similar in size to ours.

We use a market approach to determine the fair value of our individual locations identified for closure. This involves making assumptions regarding the estimated selling prices or estimated lease rates by obtaining information from property brokers or appraisers in the specific markets being evaluated. The information includes comparable sales of similar assets and assumptions about demand in the market for purchase or lease of these assets.

Judgments and uncertainties involved in the estimate
Our impairment evaluations require us to apply judgment in determining whether a triggering event has occurred, including the evaluation of whether it is more likely than not that a location will be closed significantly before the end of its previously estimated useful life. Our impairment loss calculations require us to apply judgment in estimating expected future cash flows, including estimated sales, margin, and controllable expenses, assumptions about market performance for operating locations, and estimated selling prices or lease rates for locations identified for closure. We also apply judgment in estimating asset fair values, including the selection of an appropriate discount rate for fair values determined using an income approach.

Effect if actual results differ from assumptions
During fiscal year 2018, the Company recorded impairment charges totaling $331 million within selling, general and administrative expenses in the consolidated statements of earnings. We have not made any material changes in the methodology used to estimate the future cash flows of operating locations or locations identified for closure during the past three fiscal years. If the actual results are not consistent with the assumptions and judgments we have made in determining whether it is more likely than not that a location will be closed significantly before the end of its useful life or in estimating future cash flows and determining asset fair values, our actual impairment losses could vary positively or negatively from our estimated impairment losses. In the event that our estimates vary from actual results, we may record additional impairment losses, which could be material to our results of operations.

Store Closing Lease Obligations

Description

When locations under operating leases are closed, we recognize a liability for the fair value of future contractual obligations associated with the leased location. The fair value of the store closing lease obligation is determined using an expected present value cash flow model incorporating future minimum lease payments, property taxes, utilities, common area maintenance and other ongoing expenses, net of estimated sublease income and other recoverable items, discounted at a credit-adjusted risk free rate. The expected present value cash flow model uses a probability weighted scenario approach that assigns varying cash flows to certain scenarios based on the expected likelihood of outcomes. Estimating the fair value involves making assumptions regarding estimated sublease income by obtaining information from property brokers or appraisers in the specific markets being evaluated. The information includes comparable lease rates of similar assets and assumptions about demand in the market for leasing these assets. Subsequent changes to the liability, including a change resulting from a revision to either the timing or the amount of estimated cash flows, are recognized in the period of the change.

Judgments and uncertainties involved in the estimate
Our store closing lease liability calculations require us to apply judgment in estimating expected future cash flows, primarily related to estimated sublease income, and the selection of an appropriate discount rate.

Effect if actual results differ from assumptions
During 2018, 133 stores under operating lease were closed. We recorded $341 million of expense for store closing lease obligations during 2018. These charges include $319 million related to new liabilities recorded during 2018 and $22 million of adjustments related to previously recorded liabilities.

We have not made any material changes in the methodology used to estimate the expected future cash flows of closed locations under operating leases during the past three fiscal years. If the actual results are not consistent with the assumptions and judgments we have made in estimating expected future cash flows, our store closing lease obligation losses could vary positively or negatively from our estimated losses. A 10% change in the store closing lease liability would have affected net earnings by approximately $27 million for fiscal year 2018.

Goodwill

Description

Goodwill is not amortized but is evaluated for impairment at least annually on the first day of the fourth quarter or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount may not be recoverable. We test for goodwill impairment at the reporting unit level, which is one level below the operating segment level. The evaluation begins with a qualitative assessment to determine whether a quantitative impairment test is necessary. If, after assessing qualitative factors, we determine it is more likely than not that the fair value of the reporting unit is less than the carrying amount, then the quantitative goodwill impairment test is necessary.

The quantitative goodwill impairment test used to identify both the existence of impairment and the amount of impairment loss, compares the fair value of a reporting unit with its carrying amount, including goodwill. Fair value represents the price a market participant would be willing to pay in a potential sale of the reporting unit and is based on a combination of an income approach, based on discounted future cash flows, and a market approach, based on market multiples applied to free cash flow. If the fair value exceeds carrying value, then no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The income tax effect from any tax deductible goodwill on the carrying amount of the reporting unit, if applicable, is considered in determining the goodwill impairment loss.

Judgments and uncertainties involved in the estimate
The determination of the fair value of the reporting units requires us to make significant estimates and assumptions, including store growth rates, existing store sales growth rates, forecasting expenses and selecting appropriate discount rates.

Effect if actual results differ from assumptions
During the fourth quarter of fiscal year 2018, we determined our Canadian Retail and Canadian Distribution reporting units were impaired. We recorded an impairment loss related to the Canadian reporting units of $952 million within selling, general and administrative expenses in the consolidated statements of earnings, which represents the entire amount of goodwill allocated to these reporting units.

The carrying value of goodwill as of February 1, 2019, was $303 million. The fair value of the U.S. Home Improvement reporting unit is substantially in excess of the carrying value, and we, therefore, do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to test for impairment losses on goodwill. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to an impairment charge that could be material.

Self-Insurance

Description
We are self-insured for certain losses relating to workers' compensation, automobile, general and product liability, extended protection plan, and certain medical and dental claims. Our self-insured retention or deductible, as applicable, is limited to $2 million per occurrence involving workers' compensation, $7.5 million per occurrence involving general or product liability, and $10 million per occurrence involving automobile. We do not have any insurance coverage for self-insured extended protection plan or medical and dental claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon our estimates of the discounted ultimate cost for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. During 2018, our self-insurance liability increased approximately $63 million to $953 million as of February 1, 2019.

Judgments and uncertainties involved in the estimate
These estimates are subject to changes in the regulatory environment, utilized discount rate, projected exposures including payroll, sales and vehicle units, as well as the frequency, lag and severity of claims.

Effect if actual results differ from assumptions
We have not made any material changes in the methodology used to establish our self-insurance liability during the past three fiscal years. Although we believe that we have the ability to reasonably estimate losses related to claims, it is possible that actual results could differ from recorded self-insurance liabilities. A 10% change in our self-insurance liability would have affected net earnings by approximately $71 million for 2018. A 100 basis point change in our discount rate would have affected net earnings by approximately $21 million for 2018.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements including words such as "believe", "expect", "anticipate", "plan", "desire", "project", "estimate", "intend", "will", "should", "could", "would", "may", "strategy", "potential", "opportunity" and similar expressions are forward-looking statements. Forward-looking statements involve estimates, expectations, projections, goals, forecasts, assumptions, risks and uncertainties. Forward-looking statements include, but are not limited to, statements about future financial and operating results, Lowe's plans, objectives, business outlook, priorities, expectations and intentions, expectations for sales growth, comparable sales, earnings and performance, shareholder value, capital expenditures, cash flows, the housing market, the home improvement industry, demand for services, share repurchases, Lowe's strategic initiatives, including those relating to acquisitions and dispositions by Lowe's and the expected impact of such transactions on our strategic and operational plans and financial results, and any statement of an assumption underlying any of the foregoing and other statements that are not historical facts. Although we believe that the expectations, opinions, projections and comments reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and we can give no assurance that such statements will prove to be correct. Actual results may differ materially from those expressed or implied in such statements.

For a detailed description of the risks and uncertainties that we are exposed to, you should read Item 1A, "Risk Factors" included elsewhere in this Annual Report. All forward-looking statements speak only as of the date of this Annual Report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section and in Item 1A, "Risk Factors" included elsewhere in this Annual Report. We do not undertake any obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this Annual Report.

Item 7A - Quantitative and Qualitative Disclosures about Market Risk

In addition to the risks inherent in our operations, we are exposed to certain market risks, including changes in interest rates, commodity prices and foreign currency exchange rates.

Interest Rate Risk

Fluctuations in interest rates do not have a material impact on our financial condition and results of operations because our long-term debt is carried at amortized cost and consists primarily of fixed-rate instruments. Therefore, providing quantitative information about interest rate risk is not meaningful for our financial instruments.

Commodity Price Risk

We purchase certain commodity products that are subject to price volatility caused by factors beyond our control. We believe that the price volatility of these products is partially mitigated by our ability to adjust selling prices. The selling prices of these commodity products are influenced, in part, by the market price we pay, which is determined by industry supply and demand.

Foreign Currency Exchange Rate Risk

Although we have international operating entities, our exposure to foreign currency rate fluctuations is not material to our financial condition and result of operations.

Item 8 - Financial Statements and Supplementary Data

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Lowe's Companies, Inc. and its subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting (Internal Control) as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Our Internal Control was designed to provide reasonable assurance to our management and the Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the reliability of financial reporting and financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness may vary over time.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our Internal Control as of February 1, 2019. In evaluating our Internal Control, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on our management's assessment, we have concluded that, as of February 1, 2019, our Internal Control is effective.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the financial statements contained in this Annual Report, was engaged to audit our Internal Control. Their report appears on page 42.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Lowe’s Companies, Inc. and subsidiaries (the “Company”) as of February 1, 2019 and February 2, 2018, the related consolidated statements of earnings, comprehensive income, shareholders’ equity, and cash flows for each of the three fiscal years in the period ended February 1, 2019, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of February 1, 2019 and February 2, 2018, and the results of its operations and its cash flows for each of the three fiscal years in the period ended February 1, 2019 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 1, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 1, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company has elected to change its method of accounting to reclassify shipping and handling costs relating to the delivery of products to customers from selling, general and administrative and depreciation and amortization to cost of sales in the fiscal year ended February 1, 2019. This change in accounting principle has been retrospectively applied to the consolidated financial statements for the fiscal years ended February 2, 2018 and February 3, 2017.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina
April 1, 2019

We have served as the Company's auditor since 1962.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Lowe's Companies, Inc. and subsidiaries (the "Company") as of February 1, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 1, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the fiscal year ended February 1, 2019 of the Company and our report dated April 1, 2019, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the reclassification of shipping and handling costs relating to the delivery of products to customers from selling, general and administrative and depreciation and amortization to cost of sales.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina
April 1, 2019

Lowe's Companies, Inc.
Consolidated Statements of Earnings
(In millions, except per share and percentage data)

Fiscal years ended on	February 1, 2019	% Sales	February 2, 2018	% Sales	February 3, 2017	% Sales
Net sales	**$ 71,309**	**100.00 %**	**$ 68,619**	**100.00 %**	**$ 65,017**	**100.00 %**
Cost of sales	48,401	67.88	46,185	67.31	43,343	66.66
Gross margin	**22,908**	**32.12**	**22,434**	**32.69**	**21,674**	**33.34**
Expenses:						
Selling, general and administrative	17,413	24.41	14,444	21.04	14,375	22.12
Depreciation and amortization	1,477	2.07	1,404	2.05	1,453	2.23
Operating income	**4,018**	**5.64**	**6,586**	**9.60**	**5,846**	**8.99**
Interest - net	624	0.88	633	0.92	645	0.99
Loss on extinguishment of debt	—	—	464	0.68	—	—
Pre-tax earnings	**3,394**	**4.76**	**5,489**	**8.00**	**5,201**	**8.00**
Income tax provision	1,080	1.52	2,042	2.98	2,108	3.24
Net earnings	**$ 2,314**	**3.24 %**	**$ 3,447**	**5.02 %**	**$ 3,093**	**4.76 %**
Basic earnings per common share	**$ 2.84**		**$ 4.09**		**$ 3.48**	
Diluted earnings per common share	**$ 2.84**		**$ 4.09**		**$ 3.47**	
Cash dividends per share	**$ 1.85**		**$ 1.58**		**$ 1.33**	

Lowe's Companies, Inc.
Consolidated Statements of Comprehensive Income
(In millions, except percentage data)

Fiscal years ended on	February 1, 2019	% Sales	February 2, 2018	% Sales	February 3, 2017	% Sales
Net earnings	**$ 2,314**	**3.24 %**	**$ 3,447**	**5.02 %**	**$ 3,093**	**4.76 %**
Foreign currency translation adjustments - net of tax	(221)	(0.30)	251	0.37	154	0.23
Net unrealized investment gain - net of tax	1	—	—	—	—	—
Other comprehensive income/(loss)	**(220)**	**(0.30)**	**251**	**0.37**	**154**	**0.23**
Comprehensive income	**$ 2,094**	**2.94 %**	**$ 3,698**	**5.39 %**	**$ 3,247**	**4.99 %**

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc.
Consolidated Balance Sheets
(In millions, except par value)

		February 1, 2019	February 2, 2018
Assets			
Current assets:			
Cash and cash equivalents		$ 511	$ 588
Short-term investments		218	102
Merchandise inventory - net		12,561	11,393
Other current assets		938	689
Total current assets		**14,228**	**12,772**
Property, less accumulated depreciation		18,432	19,721
Long-term investments		256	408
Deferred income taxes - net		294	168
Goodwill		303	1,307
Other assets		995	915
Total assets		**$ 34,508**	**$ 35,291**
Liabilities and shareholders' equity			
Current liabilities:			
Short-term borrowings		$ 722	$ 1,137
Current maturities of long-term debt		1,110	294
Accounts payable		8,279	6,590
Accrued compensation and employee benefits		662	747
Deferred revenue		1,299	1,378
Other current liabilities		2,425	1,950
Total current liabilities		**14,497**	**12,096**
Long-term debt, excluding current maturities		14,391	15,564
Deferred revenue - extended protection plans		827	803
Other liabilities		1,149	955
Total liabilities		**30,864**	**29,418**
Commitments and contingencies			
Shareholders' equity:			
Preferred stock - $5 par value, none issued		—	—
Common stock - $.50 par value;			
Shares issued and outstanding			
February 1, 2019	801		
February 2, 2018	830	401	415
Capital in excess of par value		—	22
Retained earnings		3,452	5,425
Accumulated other comprehensive income/(loss)		(209)	11
Total shareholders' equity		**3,644**	**5,873**
Total liabilities and shareholders' equity		**$ 34,508**	**$ 35,291**

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc.
Consolidated Statements of Shareholders' Equity
(In millions, except per share data)

	Common Stock					Total		
	Shares	Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income/ (Loss)	Total Lowe's Companies, Inc. Shareholders' Equity	Noncontrolling Interest	Total Equity
Balance January 29, 2016	**910**	**$ 455**	**$ —**	**$7,593**	**$ (394)**	**$ 7,654**	**$ —**	**$ 7,654**
Net earnings				3,091		3,091	2	3,093
Other comprehensive income					154	154		154
Tax effect of non-qualified stock options exercised and restricted stock vested			57			57		57
Cash dividends declared, $1.33 per share				(1,169)		(1,169)		(1,169)
Share-based payment expense			104			104		104
Repurchase of common stock	(48)	(24)	(279)	(3,274)		(3,577)		(3,577)
Issuance of common stock under share-based payment plans	4	2	136			138		138
Noncontrolling interest resulting from acquisition						$ —	$ 109	$ 109
Dividends paid to noncontrolling interest holders						$ —	$ (2)	$ (2)
Purchase of noncontrolling interest			$ (18)			$ (18)	$ (109)	$ (127)
Balance February 3, 2017	**866**	**$ 433**	**$ —**	**$6,241**	**$ (240)**	**$ 6,434**	**$ —**	**$ 6,434**
Net earnings				3,447		3,447		3,447
Other comprehensive income					251	251		251
Cash dividends declared, $1.58 per share				(1,324)		(1,324)		(1,324)
Share-based payment expense			99			99		99
Repurchase of common stock	(40)	(20)	(215)	(2,939)		(3,174)		(3,174)
Issuance of common stock under share-based payment plans	4	2	138			140		140
Balance February 2, 2018	**830**	**$ 415**	**$ 22**	**$5,425**	**$ 11**	**$ 5,873**	**$ —**	**$ 5,873**
Cumulative effect of accounting change				33		33		33
Net earnings				2,314		2,314		2,314
Other comprehensive loss					(220)	(220)		(220)
Cash dividends declared, $1.85 per share				(1,500)		(1,500)		(1,500)
Share-based payment expense			74			74		74
Repurchase of common stock	(32)	(16)	(209)	(2,820)		(3,045)		(3,045)
Issuance of common stock under share-based payment plans	3	2	113			115		115
Balance February 1, 2019	**801**	**$ 401**	**$ —**	**$3,452**	**$ (209)**	**$ 3,644**	**$ —**	**$ 3,644**

See accompanying notes to consolidated financial statements.

Table of Contents

Lowe's Companies, Inc.
Consolidated Statements of Cash Flows
(In millions)

Fiscal years ended on	February 1, 2019	February 2, 2018	February 3, 2017
Cash flows from operating activities:			
Net earnings	$ 2,314	$ 3,447	$ 3,093
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	1,607	1,540	1,590
Deferred income taxes	(151)	53	28
Loss on property and other assets - net	630	40	143
Impairment of goodwill	952	—	—
Loss on extinguishment of debt	—	464	—
(Gain) loss on cost method and equity method investments	9	(82)	302
Share-based payment expense	74	99	90
Changes in operating assets and liabilities:			
Merchandise inventory – net	(1,289)	(791)	(178)
Other operating assets	(110)	250	(183)
Accounts payable	1,720	(92)	653
Other operating liabilities	437	137	79
Net cash provided by operating activities	**6,193**	**5,065**	**5,617**
Cash flows from investing activities:			
Purchases of investments	(1,373)	(981)	(1,192)
Proceeds from sale/maturity of investments	1,393	1,114	1,254
Capital expenditures	(1,174)	(1,123)	(1,167)
Proceeds from sale of property and other long-term assets	76	45	37
Purchases of derivative instruments	—	—	(103)
Proceeds from settlement of derivative instruments	—	—	179
Acquisition of business - net	—	(509)	(2,356)
Other – net	(2)	13	(13)
Net cash used in investing activities	**(1,080)**	**(1,441)**	**(3,361)**
Cash flows from financing activities:			
Net change in short-term borrowings	(415)	625	466
Net proceeds from issuance of long-term debt	—	2,968	3,267
Repayment of long-term debt	(326)	(2,849)	(1,173)
Proceeds from issuance of common stock under share-based payment plans	114	139	139
Cash dividend payments	(1,455)	(1,288)	(1,121)
Repurchase of common stock	(3,037)	(3,192)	(3,595)
Other – net	(5)	(10)	(75)
Net cash used in financing activities	**(5,124)**	**(3,607)**	**(2,092)**
Effect of exchange rate changes on cash	**(12)**	**13**	**(11)**
Net increase/(decrease) in cash and cash equivalents, including cash classified within current assets held for sale	(23)	30	153
Less: Net increase in cash classified within current assets held for sale	(54)	—	—
Net increase/(decrease) in cash and cash equivalents	(77)	30	153
Cash and cash equivalents, beginning of year	588	558	405
Cash and cash equivalents, end of year	**$ 511**	**$ 588**	**$ 558**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 1, 2019, FEBRUARY 2, 2018 AND FEBRUARY 3, 2017

NOTE 1: Summary of Significant Accounting Policies

Lowe's Companies, Inc. and subsidiaries (the Company) is the world's second-largest home improvement retailer and operated 2,002 stores in the United States and Canada at February 1, 2019. In addition, as of February 1, 2019, Lowe's operated 13 stores in Mexico; however, on November 20, 2018, the Company announced its plans to exit its retail operations in Mexico. Below are those accounting policies considered by the Company to be significant.

Fiscal Year - The Company's fiscal year ends on the Friday nearest the end of January. Fiscal years 2018 and 2017 each contained 52 weeks and fiscal 2016 contained 53 weeks. All references herein for the years 2018, 2017, and 2016 represent the fiscal years ended February 1, 2019, February 2, 2018, and February 3, 2017, respectively.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned or controlled operating subsidiaries. All intercompany accounts and transactions have been eliminated. During the first quarter of fiscal year 2018, the Company conformed the financial reporting calendar of a subsidiary, which did not have a significant effect on the consolidated financial statements.

Foreign Currency - The functional currencies of the Company's international subsidiaries are generally the local currencies of the countries in which the subsidiaries are located. Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations and cash flows are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is included as a component of shareholders' equity in accumulated other comprehensive income/loss. Gains and losses from foreign currency transactions are included in selling, general and administrative (SG&A) expense.

Use of Estimates - The preparation of the Company's financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosures of contingent assets and liabilities. The Company bases these estimates on historical results and various other assumptions believed to be reasonable, all of which form the basis for making estimates concerning the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased. Cash and cash equivalents are carried at amortized cost on the consolidated balance sheets. The majority of payments due from financial institutions for the settlement of credit card and debit card transactions process within two business days and are, therefore, classified as cash and cash equivalents.

Investments - Investments generally consist of money market funds, corporate debt securities, and agency securities, all of which are classified as available-for-sale. Available-for-sale securities are recorded at fair value, and unrealized gains and losses are recorded, net of tax, as a component of accumulated other comprehensive income/loss. Gross unrealized gains and losses were not significant for any of the periods presented.

The proceeds from sales of available-for-sale securities were $506 million, $523 million, and $505 million for 2018, 2017, and 2016, respectively. Gross realized gains and losses on the sale of available-for-sale securities were not significant for any of the periods presented.

Investments with a stated maturity date of one year or less from the balance sheet date or that are expected to be used in current operations are classified as short-term investments. All other investments are classified as long-term. Investments classified as long-term at February 1, 2019, will mature in one to 16 years, based on stated maturity dates.

The Company classifies as investments restricted balances primarily pledged as collateral for the Company's extended protection plan program. Restricted balances included in short-term investments were $218 million at February 1, 2019, and $86 million at February 2, 2018. Restricted balances included in long-term investments were $256 million at February 1, 2019, and $381 million at February 2, 2018.

Merchandise Inventory - The majority of the Company's inventory is stated at the lower of cost and net realizable value using the first-in, first-out method of inventory accounting. Inventory for certain subsidiaries representing approximately 7% and 10% of the consolidated inventory balances as of February 1, 2019 and February 2, 2018, respectively, are stated at lower of cost and net realizable value using other inventory methods, including the weighted average cost method and the retail inventory method. The cost of inventory includes certain costs associated with the preparation of inventory for resale, including distribution center costs, and is net of vendor funds.

The Company records an inventory reserve for the anticipated loss associated with selling inventories below cost. This reserve is based on management's current knowledge with respect to inventory levels, sales trends, and historical experience. Management does not believe the Company's merchandise inventories are subject to significant risk of obsolescence in the near term, and management has the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns could result in the need for additional reserves. The Company also records an inventory reserve for the estimated shrinkage between physical inventories. This reserve is based primarily on actual shrink results from previous physical inventories. Changes in the estimated shrink reserve are made based on the timing and results of physical inventories.

The Company receives funds from vendors in the normal course of business, principally as a result of purchase volumes, sales, early payments, or promotions of vendors' products. Generally, these vendor funds do not represent the reimbursement of specific, incremental, and identifiable costs incurred by the Company to sell the vendor's product. Therefore, the Company treats these funds as a reduction in the cost of inventory, and are recognized as a reduction of cost of sales when the inventory is sold. Funds that are determined to be reimbursements of specific, incremental, and identifiable costs incurred to sell vendors' products are recorded as an offset to the related expense. The Company develops accrual rates for vendor funds based on the provisions of the agreements in place. Due to the complexity and diversity of the individual vendor agreements, the Company performs analyses and reviews historical trends throughout the year and confirms actual amounts with select vendors to ensure the amounts earned are appropriately recorded. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected annual purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met.

Derivative Financial Instruments - The Company occasionally utilizes derivative financial instruments to manage certain business risks. However, the amounts were not material to the Company's consolidated financial statements in any of the years presented.

Sale of Business Accounts Receivable - The Company has an agreement with Synchrony Bank (Synchrony) under which Synchrony purchases at face value commercial business accounts receivable originated by the Company and services these accounts. The Company primarily accounts for these transfers as sales of the accounts receivable. When the Company transfers its commercial business accounts receivable, it retains certain interests in those receivables, including the funding of a loss reserve and its obligation related to Synchrony's ongoing servicing of the receivables sold. Any gain or loss on the sale is determined based on the previous carrying amounts of the transferred assets allocated at fair value between the receivables sold and the interests retained. Fair value is based on the present value of expected future cash flows, taking into account the key assumptions of anticipated credit losses, payment rates, late fee rates, Synchrony's servicing costs, and the discount rate commensurate with the uncertainty involved. Due to the short-term nature of the receivables sold, changes to the key assumptions would not materially impact the recorded gain or loss on the sales of receivables or the fair value of the retained interests in the receivables.

Total commercial business accounts receivable sold to Synchrony were $3.1 billion in 2018, $3.1 billion in 2017, and $2.8 billion in 2016. The Company recognized losses of $41 million in 2018, $39 million in 2017, and $32 million in 2016 on these receivable sales as SG&A expense, which primarily relates to the fair value of obligations related to servicing costs that are remitted to Synchrony monthly. At February 1, 2019 and February 2, 2018, the fair value of the retained interests was determined based on the present value of expected future cash flows and was insignificant.

Other Credit Programs - Sales generated through the Company's proprietary credit cards are not reflected in receivables. Under an agreement with Synchrony, credit is extended directly to customers by Synchrony. All credit program-related services are performed and controlled directly by Synchrony. The Company has the option, but no obligation, to purchase the receivables at the end of the agreement. Portfolio income associated with the propriety credit program is included in sales in the consolidated statements of earnings as of the adoption of Accounting Standards Update 2014-09 (ASU 2014-09) in fiscal 2018. ASU 2014-09 was adopted using the modified retrospective approach; therefore, fiscal 2017 and fiscal 2016 present portfolio income associated with the proprietary credit program within SG&A expense.

Property and Depreciation - Property is recorded at cost. Costs associated with major additions are capitalized and depreciated. Capital assets are expected to yield future benefits and have original useful lives which exceed one year. The total cost of a capital asset generally includes all applicable sales taxes, delivery costs, installation costs, and other appropriate costs incurred by the Company, including interest in the case of self-constructed assets. Upon disposal, the cost of properties and related accumulated depreciation is removed from the accounts, with gains and losses reflected in SG&A expense in the consolidated statements of earnings.

Property consists of land, buildings and building improvements, equipment, and construction in progress. Buildings and building improvements includes owned buildings, as well as buildings under capital lease and leasehold improvements. Equipment primarily includes store racking and displays, computer hardware and software, forklifts, vehicles, and other store equipment.

Depreciation is provided over the estimated useful lives of the depreciable assets. Assets are depreciated using the straight-line method. Leasehold improvements and assets under capital lease are depreciated over the shorter of their estimated useful lives or the term of the related lease, which may include one or more option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably assured. During the term of a lease, if leasehold improvements are placed in service significantly after the inception of the lease, the Company depreciates these leasehold improvements over the shorter of the useful life of the leasehold assets or a term that includes lease renewal periods deemed to be reasonably assured at the time the leasehold improvements are placed into service. The amortization of these assets is included in depreciation and amortization expense in the consolidated financial statements.

Long-Lived Asset Impairment/Exit Activities - The carrying amounts of long-lived assets are reviewed whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. A potential impairment has occurred for long-lived assets held-for-use if projected future undiscounted cash flows expected to result from the use and eventual disposition of the assets are less than the carrying amounts of the assets. An impairment loss is recorded for long-lived assets held-for-use when the carrying amount of the asset is not recoverable and exceeds its fair value.

Excess properties that are expected to be sold within the next 12 months and meet the other relevant held-for-sale criteria are classified as long-lived assets held-for-sale. Excess properties consist primarily of retail outparcels and property associated with relocated or closed locations. An impairment loss is recorded for long-lived assets held-for-sale when the carrying amount of the asset exceeds its fair value less cost to sell. A long-lived asset is not depreciated while it is classified as held-for-sale.

For long-lived assets to be abandoned, the Company considers the asset to be disposed of when it ceases to be used. Until it ceases to be used, the Company continues to classify the asset as held-for-use and tests for potential impairment accordingly. If the Company commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, its depreciable life is re-evaluated.

Impairment losses are included in SG&A expense in the consolidated statements of earnings. Fair value measurements associated with long-lived asset impairments are further described in Note 6 to the consolidated financial statements.

When locations under operating leases are closed, a liability is recognized for the fair value of future contractual obligations, including future minimum lease payments, property taxes, utilities, common area maintenance, and other ongoing expenses, net of estimated sublease income and other recoverable items. Subsequent changes to the liabilities, including a change resulting from a revision to either the timing or the amount of estimated cash flows, are recognized in the period of change. Expenses associated with exit activities are included in SG&A expense in the consolidated statement of earnings.

Goodwill - Goodwill is the excess of the purchase price over the fair value of identifiable assets acquired, less liabilities assumed, in a business combination. The Company reviews goodwill for impairment at the reporting unit level, which is one level below the operating segment level. Goodwill is not amortized but is evaluated for impairment at least annually on the first day of the fourth quarter or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount may not be recoverable. The evaluation begins with a qualitative assessment to determine whether a quantitative impairment test is necessary. If, after assessing qualitative factors, we determine it is more likely than not that the fair value of the reporting unit is less than the carrying amount, then the quantitative goodwill impairment test is performed.

The quantitative goodwill impairment test used to identify potential impairment compares the fair value of a reporting unit with its carrying amount, including goodwill. Fair value represents the price a market participant would be willing to pay in a potential sale of the reporting unit and is based on a combination of an income approach, based on discounted future cash flows, and a market approach, based on market multiples applied to free cash flow. If the fair value exceeds carrying value, then no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, in accordance with Accounting Standards Update 2017-04 which was early adopted by the Company in fiscal 2018, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Any impairment identified is included within SG&A expense in the consolidated statements of earnings. The income tax effect from any tax deductible goodwill on the carrying amount of the reporting unit, if applicable, is considered in determining the goodwill impairment loss.

A reporting unit is an operating segment or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. During fiscal 2018, goodwill was allocated to the following reporting units: U.S. Home Improvement, Canada-Retail, and Canada-Distribution.

The changes in the carrying amount of goodwill for 2018, 2017, and 2016 were as follows:

(In millions)	2018	2017	2016
Goodwill, balance at beginning of year	**$ 1,307**	**$ 1,082**	**$ 154**
Acquisitions [1]	—	160	1,015
Impairment	(952)	—	(46)
Other adjustments [2]	(52)	65	(41)
Goodwill, balance at end of year	**$ 303**	**$ 1,307**	**$ 1,082**

1 *Goodwill recorded for 2017 acquisitions relates to Maintenance Supply Headquarters. Goodwill recorded for 2016 acquisitions primarily relates to RONA. See Note 4 for additional information regarding these acquisitions.*

2 *Other adjustments primarily consist of changes in the goodwill balance as a result of foreign currency translation.*

The Company's annual goodwill impairment analysis performed during the fourth quarter of fiscal 2018 included a quantitative analysis of the Canada-Retail and Canada-Distribution reporting units. The Company classified these fair value measurements as Level 3. See Note 6 for additional information on the Company's fair value measurements. The Company performed a discounted cash flow analysis and market multiple analysis for the Canada-Retail and Canada-Distribution reporting units. These discounted cash flow models included management assumptions for expected sales growth, margin expansion, operational leverage, capital expenditures, and overall operational forecasts. The market multiple analysis included historical and projected performance, market capitalization, volatility, and multiples for industry peers. These analyses led to the conclusion that the fair value of these reporting units was less than their carrying values by an amount that exceeded the carrying value of goodwill, primarily driven by a softening outlook for the Canadian housing market. Accordingly, the full carrying value of $952 million relating to the Canadian reporting units' goodwill was impaired during the fourth quarter of 2018.

During the third quarter of fiscal 2016, the Company determined potential indicators of impairment within the Orchard reporting unit existed, and quantitatively evaluated the Orchard reporting unit for impairment. The Company classified this fair value measurement as Level 3. See Note 6 for additional information on the Company's fair value measurements. The Company performed a discounted cash flow analysis for the Orchard reporting unit. The discounted cash flow model included management assumptions for expected sales growth, expansion plans, capital expenditures, and overall operational forecasts. The analysis led to the conclusion that the goodwill allocated to the Orchard reporting unit had no implied value. Accordingly, the full carrying value of $46 million relating to Orchard goodwill was impaired during the third quarter of 2016.

Gross carrying amounts and cumulative goodwill impairment losses are as follows:

	February 1, 2019		February 2, 2018	
(In millions)	Gross Carrying Amount	Cumulative Impairment	Gross Carrying Amount	Cumulative Impairment
Goodwill	$ 1,302	$ (999)	$ 1,354	$ (47)

Equity Method Investments - The Company's investments in certain unconsolidated entities are accounted for under the equity method. The balance of these investments is included in other assets (non-current) in the accompanying consolidated balance sheets. The balance is increased to reflect the Company's capital contributions and equity in earnings of the investees. The balance is decreased for its equity in losses of the investees, for distributions received that are not in excess of the carrying amount of the investments, and for any other than temporary impairment losses recognized. Equity method investments were not significant as of February 1, 2019 and February 2, 2018. The Company's equity in earnings and losses of the investees are included in SG&A expense, and were not significant for any of the periods presented.

Equity method investments are evaluated for impairment whenever events or changes in circumstances indicate that a decline in value has occurred that is other than temporary. Evidence considered in this evaluation includes, but would not necessarily be limited to, the financial condition and near-term prospects of the investee, recent operating trends and forecasted performance of the investee, market conditions in the geographic area or industry in which the investee operates and the Company's strategic plans for holding the investment in relation to the period of time expected for an anticipated recovery of its carrying value. Investments that are determined to have a decline in value deemed to be other than temporary are written down to estimated fair value. The Company's other than temporary impairment losses are included in SG&A expense, and were not significant for 2018 and 2017. See Note 5 for additional information on the other than temporary impairment loss the Company recognized in 2016, related to its investment in the Australian joint venture.

Leases - For lease agreements that provide for escalating rent payments or free-rent occupancy periods, the Company recognizes rent expense on a straight-line basis over the non-cancellable lease term and option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably assured. The lease term commences on the date that the Company takes possession of or controls the physical use of the property. Deferred rent is included in other liabilities (non-current) on the consolidated balance sheets.

When the Company renegotiates and amends a lease to extend the non-cancellable lease term prior to the date at which it would have been required to exercise or decline a term extension option, the amendment is treated as a new lease. The new lease begins on the date the lease amendment is entered into and ends on the last date of the non-cancellable lease term, as adjusted to include any option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease amendment, to be reasonably assured. The new lease is classified as operating or capital under the authoritative guidance through use of assumptions regarding residual value, economic life, incremental borrowing rate, and fair value of the leased asset(s) as of the date of the amendment.

Accounts Payable - The Company has an agreement with a third party to provide an accounts payable tracking system which facilitates participating suppliers' ability to finance payment obligations from the Company with designated third-party financial institutions. Participating suppliers may, at their sole discretion, make offers to finance one or more payment obligations of the Company prior to their scheduled due dates at a discounted price to participating financial institutions. The Company's goal in entering into this arrangement is to capture overall supply chain savings, in the form of pricing, payment terms, or vendor funding, created by facilitating suppliers' ability to finance payment obligations at more favorable discount rates, while providing them with greater working capital flexibility.

The Company's obligations to its suppliers, including amounts due and scheduled payment dates, are not impacted by suppliers' decisions to finance amounts under this arrangement. However, the Company's right to offset balances due from suppliers against payment obligations is restricted by this arrangement for those payment obligations that have been financed by suppliers. The Company's outstanding payment obligation placed on the accounts payable tracking system were $2.1 billion as of February 1, 2019 and $1.6 billion as of February 2, 2018, and participating suppliers had financed $1.5 billion and $1.1 billion, respectively, of those payment obligations to participating financial institutions.

Other Current Liabilities - Other current liabilities on the consolidated balance sheets consist of:

(In millions)	**February 1, 2019**	**February 2, 2018**
Accrued dividends	$ 385	$ 340
Self-insurance liabilities	378	347
Sales return reserve	194	71
Accrued interest	184	184
Sales tax liabilities	179	144
Accrued property taxes	108	109
Other	997	755
Total	**$ 2,425**	**$ 1,950**

Self-Insurance - The Company is self-insured for certain losses relating to workers' compensation, automobile, property, and general and product liability claims. The Company has insurance coverage to limit the exposure arising from these claims. The Company is also self-insured for certain losses relating to extended protection plan and medical and dental claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon management's estimates of the discounted ultimate cost for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. Although management believes it has the ability to reasonably estimate losses related to claims, it is possible that actual results could differ from recorded self-insurance liabilities. The total self-insurance liability, including the current and non-current portions, was $953 million and $890 million at February 1, 2019, and February 2, 2018, respectively.

The Company provides surety bonds issued by insurance companies to secure payment of workers' compensation liabilities as required in certain states where the Company is self-insured. Outstanding surety bonds relating to self-insurance were $246 million and $238 million at February 1, 2019, and February 2, 2018, respectively.

Income Taxes - The Company establishes deferred income tax assets and liabilities for temporary differences between the tax and financial accounting bases of assets and liabilities. The tax effects of such differences are reflected in the consolidated balance sheets at the enacted tax rates expected to be in effect when the differences reverse. A valuation allowance is recorded to reduce the carrying amount of deferred tax assets if it is more likely than not that all or a portion of the asset will not be realized. The tax balances and income tax expense recognized by the Company are based on management's interpretation of the tax statutes of multiple jurisdictions.

The Company establishes a liability for tax positions for which there is uncertainty as to whether or not the position will be ultimately sustained. The Company includes interest related to tax issues as part of net interest on the consolidated financial statements. The Company records any applicable penalties related to tax issues within the income tax provision.

Shareholders' Equity - The Company has a share repurchase program that is executed through purchases made from time to time either in the open market or through private market transactions. Shares purchased under the repurchase program are retired and returned to authorized and unissued status. Any excess of cost over par value is charged to additional paid-in capital to the extent that a balance is present. Once additional paid-in capital is fully depleted, remaining excess of cost over par value is charged to retained earnings.

Cost of Sales and Selling, General and Administrative Expenses - The following lists the primary costs classified in each major expense category:

Cost of Sales

- Total cost of products sold, including:
  - Purchase costs, net of vendor funds;
  - Freight expenses associated with moving merchandise inventories from vendors to selling locations;
  - Costs associated with operating the Company's distribution network, including payroll and benefit costs and occupancy costs;
- Costs of installation services provided;
- Costs associated with shipping and handling to customers, as well as directly from vendors to customers by third parties;
- Costs associated with inventory shrinkage and obsolescence;
- Costs of services performed under the extended protection plan.

Selling, General and Administrative

- Payroll and benefit costs for retail and corporate employees;
- Occupancy costs of retail and corporate facilities;
- Advertising;
- Third-party, in-store service costs;
- Tender costs, including bank charges, costs associated with credit card interchange fees and amounts associated with accepting the Company's proprietary credit cards;
- Costs associated with self-insured plans, and premium costs for stop-loss coverage and fully insured plans;
- Long-lived asset impairment losses, gains/losses on disposal of assets, and exit costs;
- Other administrative costs, such as supplies, and travel and entertainment.

Advertising - Costs associated with advertising are charged to expense as incurred. Advertising expenses were $963 million, $968 million, and $893 million in 2018, 2017, and 2016, respectively.

Store Opening Costs - Costs of opening new or relocated retail stores, which include payroll and supply costs incurred prior to store opening and grand opening advertising costs, are charged to expense as incurred.

Comprehensive Income - The Company reports comprehensive income in its consolidated statements of comprehensive income and consolidated statements of shareholders' equity. Comprehensive income represents changes in shareholders' equity from non-owner sources and is comprised of net earnings adjusted primarily for foreign currency translation adjustments. Net foreign currency translation losses, net of tax, classified in accumulated other comprehensive loss were $209 million and $240 million at February 1, 2019 and February 3, 2017, respectively. Net foreign currency translation gains, net of tax, classified in accumulated other comprehensive income were $11 million at February 2, 2018.

Segment Information - The Company's home improvement retail operations represent a single reportable segment. Key operating decisions are made at the Company level in order to maintain a consistent retail store presentation. The Company's home improvement retail and hardware stores sell similar products and services, use similar processes to sell those products and services, and sell their products and services to similar classes of customers. In addition, the Company's operations exhibit similar long-term economic characteristics. The amounts of long-lived assets and net sales outside of the U.S. were approximately 9.1% and 7.6%, respectively, at February 1, 2019. The amounts of long-lived assets and net sales outside of the U.S. were approximately 9.8% and 7.8%, respectively, at February 2, 2018. The amounts of long-lived assets and net sales outside of the U.S. were approximately 8.7% and 5.7%, respectively, at February 3, 2017.

Reclassifications - Certain prior period amounts have been reclassified to conform to current classifications.

Accounting Pronouncements Recently Adopted - Effective November 3, 2018, the Company early adopted Accounting Standards Update 2017-04 (ASU), *Intangibles-Goodwill and Other (Topic 350)*. The ASU eliminates Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation to the identified assets and liabilities of the reporting unit to measure goodwill impairment. Under the amendments in this update, a goodwill impairment test is performed by comparing the fair value of the reporting unit with its carrying amount. An impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The adoption of this guidance by the Company did not have a material impact on its consolidated financial statements.

Effective February 3, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all the related amendments, using the modified retrospective method. ASU 2014-09 requires a company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Upon adoption of ASU 2014-09, the Company recorded an immaterial adjustment to the opening balance of retained earnings as of February 3, 2018, with related adjustments to other current assets, deferred revenue, accounts payable, other current liabilities, and related tax effects. The adjustment to retained earnings primarily relates to the change in revenue recognition related to gift card breakage. The adoption of the guidance also required a change in the timing of when installation services are recognized, the presentation of sales return reserve on the consolidated balance sheet, and a change in the presentation of the Company's profit sharing income from its proprietary credit program. We applied ASU 2014-09 only to contracts that were not completed prior to fiscal 2018. Results for reporting periods beginning after February 2, 2018 are presented under ASU 2014-09, while comparative prior period amounts have not been restated and continue to be presented under accounting standards in effect in those periods. See Note 3 for additional details of the Company's revenues.

The impact of adopting the new revenue recognition guidance on our consolidated statement of earnings is as follows:

	Twelve Months Ended February 1, 2019		
Consolidated Statement of Earnings (in millions)	**As Reported**	**Under Historical Guidance**	**Impact of Adopting ASU 2014-09**
Net Sales	$ 71,309	$ 70,586	$ 723
Cost of sales	48,401	48,481	(80)
Gross margin	22,908	22,105	803
Selling, general and administrative	17,413	16,610	803
Operating income	4,018	4,018	—
Pre-tax earnings	3,394	3,394	—
Net earnings	2,314	2,314	—

The impact of adopting the new revenue recognition guidance to assets and liabilities on our consolidated balance sheet are as follows:

	Balance at February 1, 2019		
	As Reported	Under Historical Guidance	Impact of Adopting ASU 2014-09
Assets			
Other current assets	$ 938	$ 811	$ 127
Liabilities			
Accounts payable	8,279	8,272	7
Deferred revenue	1,299	1,371	(72)
Other current liabilities	2,425	2,281	144

Accounting Pronouncements Not Yet Adopted - In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for those leases previously classified as operating leases. In July 2018, the FASB issued ASU 2018-11, which allows a transition election to not restate comparative periods for the effects of applying the new standard. This transition election permits entities to change the date of initial application of the standard to the beginning of the year of adoption and to recognize the effects of applying Topic 842 as a cumulative-effect adjustment to the opening balance of retained earnings. Certain qualitative and quantitative disclosures are also required. The Company will adopt this ASU and related amendments on February 2, 2019. The Company will elect the optional transition approach and recognize the cumulative impact of adoption in the opening balance of retained earnings to beginning fiscal year 2019. The Company currently estimates the impact of adopting Topic 842 will result in an increase in lease-related assets of $3.2 billion to $3.6 billion and an increase in lease-related liabilities of $3.5 billion to $3.9 billion on its consolidated balance sheet, as a result of the requirement to recognize right-of-use assets and lease liabilities for operating leases. The Company does not expect a material impact to the Company's consolidated statements of earnings, comprehensive income, shareholders' equity, or cash flows.

NOTE 2: Change in Accounting Principle - During the fourth quarter of fiscal 2018, the Company changed its method of accounting for shipping and handling costs from the Company's stores, distribution centers, and other locations to customers. Under the new accounting principle, shipping and handling costs related to the delivery of products from the Company to customers are included in costs of sales, whereas previously, they were included in SG&A expense as well as depreciation and amortization. In connection with the change in presentation, the Company also changed its definition of shipping and handling costs to include all direct and indirect costs associated with delivering product to a customer, including expenses associated with the central delivery terminals and depreciation and amortization of delivery assets. Under the previous definition of shipping and handling costs, the Company only included third-party delivery costs, salaries, and vehicle operations expenses relating to the delivery of product from stores and distribution centers to customers. The impact of this change in definition was not material.

The Company believes including these expenses in cost of sales is preferable, as it better aligns these costs with the related revenue in the gross profit calculation and is consistent with the practices of other retailers. This change in accounting principle has been applied retrospectively, and the consolidated statements of earnings reflect the effect of this accounting principle change in all years presented. This reclassification had no impact on operating income, net earnings or diluted earnings per share. The consolidated balance sheets, the consolidated statements of comprehensive income, consolidated statements of shareholders' equity, and the consolidated statements of cash flows are not impacted by this accounting principle change.

The consolidated statements of earnings for fiscal 2018, 2017, and 2016 have been adjusted to reflect this change in accounting principle. The impact of the adjustment for fiscal 2018 was an increase of $1.2 billion to cost of sales and a corresponding decrease to SG&A expense of $1.1 billion and depreciation and amortization expense of $39 million. The impact of this adjustment for fiscal 2017 was an increase of $975 million to cost of sales and a corresponding decrease to SG&A expense of $932 million and depreciation and amortization expense of $43 million. The impact of the adjustment to fiscal 2016 was an increase of $790 million to cost of sales and a corresponding decrease to SG&A expense of $754 million and depreciation and amortization expense of $36 million.

NOTE 3: Revenue Recognition - Net sales consists primarily of revenue, net of sales tax, associated with contracts with customers for the sale of goods and services in amounts that reflect consideration the Company is entitled to in exchange for those goods and services.

The following table presents the Company's sources of revenue:

	Year Ended		
(In millions)	February 1, 2019	February 2, 2018	February 3, 2017
Products	$ 67,197	$ 65,421	$ 62,053
Services	2,539	2,469	2,505
Other	1,573	729	459
Net sales	**$ 71,309**	**$ 68,619**	**$ 65,017**

Revenue from products primarily relates to in-store and online merchandise purchases, which are recognized at the point in time when the customer obtains control of the merchandise, which is at the time of in-store purchase or delivery of the product to the customer. A provision for anticipated merchandise returns is provided through a reduction of sales and cost of sales in the period that the related sales are recorded. Under ASU 2014-09, the merchandise return reserve is presented on a gross basis, with a separate asset and liability included in the consolidated balance sheets as of reporting periods after February 2, 2018. Reporting periods prior to the adoption of ASU 2014-09 reflect merchandise return reserves on a net basis. As of February 1, 2019, anticipated sales returns of $194 million are reflected in other current liabilities, and the associated right of return assets of $127 million are reflected in other current assets. As of February 2, 2018, the merchandise return reserve, net of the associated asset, was $71 million reflected in other current liabilities.

Revenues from services primarily relate to professional installation services the Company provides through subcontractors related to merchandise purchased by a customer. In certain instances, installation services include materials provided by the subcontractor, and both product and installation are included in service revenue. The Company recognizes revenue associated with services as they are rendered, and the majority of services are completed less than one week from initiation.

Deferred revenue is presented for merchandise that has not yet transferred control to the customer and for services that have not yet been provided, but for which tender has been accepted. Deferred revenue is recognized in sales either at a point in time when the customer obtains control of merchandise through pickup or delivery, or over time as services are provided to the customer. Deferred revenues associated with amounts received for which customers have not taken possession of the merchandise or for which installation has not yet been completed were $790 million at February 1, 2019 and $831 million at February 2, 2018. The majority of revenue for goods and services is recognized in the quarter following revenue deferral.

Stored-value cards

In addition, the Company defers revenues from stored-value cards, which include gift cards and returned merchandise credits, and recognizes revenue into sales when the cards are redeemed. The liability associated with outstanding stored-value cards was $509 million and $547 million at February 1, 2019, and February 2, 2018, respectively, and these amounts are included in deferred revenue on the consolidated balance sheets. Upon adoption of ASU 2014-09, the Company recognizes income from unredeemed stored-value cards in proportion to the pattern of rights exercised by the customer. Amounts recognized as breakage were insignificant for the years ended February 1, 2019, February 2, 2018 and February 3, 2017.

Extended protection plans

The Company also defers revenues for its separately-priced extended protection plan contracts, which is a Lowe's-branded program for which the Company is ultimately self-insured. The Company recognizes revenue from extended protection plan sales on a straight-line basis over the respective contract term. Extended protection plan contract terms primarily range from one to five years from the date of purchase or the end of the manufacturer's warranty, as applicable. Deferred revenue from extended protection plans recognized into sales were $390 million for the fiscal year ended February 1, 2019, $368 million for the fiscal year ended February 2, 2018, and $353 million for the fiscal year ended February 3, 2017, respectively. Incremental direct acquisition costs associated with the sale of extended protection plans are also deferred and recognized as expense on a straight-line basis over the respective contract term and were insignificant at February 1, 2019, February 2, 2018 and February 3, 2017, respectively. The Company's extended protection plan deferred costs are included in other assets (noncurrent) on the consolidated balance sheets. All other costs, such as costs of services performed under the contract, general and administrative expenses, and advertising expenses are expensed as incurred.

The liability for extended protection plan claims incurred is included in other current liabilities on the consolidated balance sheets and was not material in any of the periods presented. Expenses for claims are recognized when incurred and totaled $183 million for the fiscal year ended February 1, 2019, $161 million for the fiscal year ended February 2, 2018, $141 million for the fiscal year ended February 3, 2017, respectively.

Disaggregation of Revenues

The following table presents the Company's net sales disaggregated by merchandise division:

	Year Ended					
	February 1, 2019		**February 2, 2018**		**February 3, 2017**	
(In millions)	**Total Sales**	**%**	**Total Sales**	**%**	**Total Sales**	**%**
Building & Maintenance [1]	$ 28,582	40	$ 27,689	41	$ 25,868	40
Home Décor [2]	27,987	39	27,422	39	26,269	40
Seasonal [3]	12,786	18	12,384	19	12,090	19
Other	1,955	3	1,124	1	790	1
Total	**$ 71,309**	**100**	**$ 68,619**	**100**	**$ 65,017**	**100**

[1] *Building & Maintenance includes the following product categories: Lumber & Building Materials, Millwork, Rough Plumbing & Electrical, and Tools & Hardware.*

[2] *Home Décor includes the following product categories: Appliances, Fashion Fixtures, Flooring, Kitchens, and Paint.*

[3] *Seasonal includes the following product categories: Lawn & Garden and Seasonal & Outdoor Living.*

The following table presents the Company's net sales disaggregated by geographical area:

	Year Ended		
(In millions)	**February 1, 2019**	**February 2, 2018**	**February 3, 2017**
United States	$ 65,872	$ 63,263	$ 61,333
International	5,437	5,356	3,684
Net Sales	**$ 71,309**	**$ 68,619**	**$ 65,017**

Practical Expedients

Sales commissions and other selling costs are considered immaterial and are expensed as incurred because the amortization period of the assets would be one year or less. These costs are reflected within SG&A expenses.

NOTE 4: Acquisitions

Maintenance Supply Headquarters

On June 23, 2017, the Company completed its acquisition of Maintenance Supply Headquarters, a leading distributor of maintenance, repair and operations (MRO) products serving the multifamily housing industry. The acquisition enables the

Company to deepen and broaden its relationship with Pro customers and better serve their needs. The aggregate cash purchase price of this acquisition was $513 million and is included in the investing section of the consolidated statements of cash flows, net of the cash acquired. Acquisition-related costs were expensed as incurred and were not significant.

The following table summarizes the aggregate purchase price allocation:

(In millions)		June 23, 2017
Allocation:		
Cash acquired	$	4
Merchandise inventory		68
Other current assets		36
Property		12
Goodwill		160
Other assets		260
Accounts payable		(18)
Other current liabilities		(9)
Net assets acquired	**$**	**513**

Intangible assets acquired totaled $259 million, and include a trademark of $34 million with a useful life of 15 years and a customer list of $225 million with a useful life of 20 years, each of which are included in other assets in the accompanying consolidated balance sheets. The goodwill of $160 million is primarily attributable to the synergies associated with the acquisition and is deductible for tax purposes.

Pro forma and historical financial information has not been provided as the acquisition was not material to the consolidated financial statements.

RONA

On May 20, 2016, the Company acquired all of the issued and outstanding common shares of RONA for C$24 per share in cash. In addition, as part of the transaction, borrowings under RONA's revolving credit facility were settled in full at the closing of the acquisition, and the facility was eliminated. Total cash consideration to acquire the equity and settle the debt was C$3.1 billion ($2.4 billion) and is included in the investing section of the consolidated statements of cash flows. RONA is one of Canada's largest retailers and distributors of hardware, building materials, home renovation, and gardening products. The acquisition enables the Company to accelerate its growth strategy by significantly expanding its presence in the Canadian home improvement market. Acquisition-related costs were expensed as incurred and were not significant.

Table of Contents

The following represents the aggregate purchase price allocation which includes purchase accounting adjustments made during the measurement period:

(In millions)		May 20, 2016
Purchase price:		
Cash paid to common shareholders	$	1,999
Cash paid to debt holders		368
Total cash paid	**$**	**2,367**
Allocation:		
Cash acquired	$	83
Accounts receivable		260
Merchandise inventory		814
Property		897
Goodwill		971
Other assets		437
Other current liabilities		(619)
Long-term liabilities		(367)
Noncontrolling interest		(109)
Net assets acquired	**$**	**2,367**

The intangible assets acquired totaled $310 million, and include trademarks of $204 million with a weighted average useful life of 15 years and dealer relationships of $106 million with a weighted average useful life of 20 years, which are included in other assets in the accompanying consolidated balance sheets. The goodwill of $971 million is primarily attributable to the synergies associated with the acquisition. Goodwill of approximately $107 million is expected to be deductible for tax purposes.

The transaction included the assumption by Lowe's of unsecured debentures held by RONA of approximately C$118 million ($91 million) as of the acquisition date. The debentures matured and were settled in October 2016.

As of the acquisition date, 6.9 million preferred shares of RONA remained outstanding. The total fair value of the shares and Lowe's corresponding noncontrolling interest was $109 million, which was determined based on the closing market price of RONA's preferred shares on the acquisition date. During the fourth fiscal quarter of 2016, the Company acquired all of the remaining noncontrolling interest in RONA by paying RONA's preferred shareholders approximately $127 million, which represented an $18 million premium in excess of the carrying amount of the noncontrolling interest. See Note 15 to the consolidated financial statements for information regarding the impact of this transaction to the Company's earnings per share calculation.

Pro forma and historical financial information has not been provided as the acquisition was not material to the consolidated financial statements. In addition, net earnings attributable to the noncontrolling interest was not significant for any of the reporting periods presented.

NOTE 5: Investment in Australian Joint Venture

In the fourth quarter of fiscal year 2015, the Company announced its decision to exit the Australian joint venture investment with Woolworths Limited (Woolworths) and recorded a $530 million impairment of its equity method investment due to a determination that there was a decrease in value that was other than temporary. The Company owned a one-third share in the joint venture, Hydrox Holdings Pty Ltd. (Hydrox), which operated Masters Home Improvement stores and Home Timber and Hardware Group's retail stores and wholesale distribution in Australia. As a result of this decision to exit, Woolworths was required to purchase the Company's one-third share at its fair value as of January 18, 2016. The process for the two parties agreeing on fair value is prescribed in the Joint Venture Agreement. The $530 million non-cash impairment charge recorded in fiscal 2015 was based on the Company's estimate of the value of its portion of the overall joint venture fair value as of January 18, 2016.

During the third quarter of fiscal year 2016, Woolworths claimed a unilateral termination of the joint venture agreement, and executed other agreements to initiate the wind down of Hydrox without the Company's approval as required under the joint venture agreement. Due to this, Lowe's concluded that under applicable accounting standards, the investment should be accounted for as a cost method investment going forward. As a result of this determination, accumulated foreign currency translation adjustments of $208 million were reclassified from accumulated other comprehensive loss into the carrying value of the cost method investment. In addition, the unilateral actions of Woolworths to begin the liquidation of Hydrox, represented a triggering event requiring the Company to evaluate the cost method investment for impairment. Management determined that the requirements for determining impairment were met, and leveraged wind down cash flow projections in determining the estimated fair value of the entity as of October 28, 2016. The value was determined using an income approach based upon the expected future cash flows generated from the settlement of assets and liabilities inclusive of inventory, property, payables, lease liabilities and employee entitlements. As a result, the Company recorded a $290 million non-cash impairment charge during the third quarter of fiscal 2016 to reflect its estimated portion of the overall joint venture fair value in wind down. The Company classified this fair value measurement as Level 3. See Note 6 for additional information on the Company's fair value measurements.

Following the impairment recorded in the third quarter of fiscal 2016, the Company considered the amount due under the joint venture agreement, which was based on the fair value as of January 18, 2016 on a going concern basis, to exceed the recorded amount of the investment, which was based on an estimated current fair value in wind down. This claim for additional value under the joint venture agreement above and beyond any amounts expected to be received through the wind down process, represented a contingent asset whereby the Company would recognize any amounts as they were realized.

During the second quarter of fiscal 2017, the Company completed the sale of our interest in the Australian joint venture with Woolworths and received proceeds of $199 million, which is included in cash flows from investing activities in the accompanying consolidated statements of cash flows. The proceeds from the sale exceeded the carrying value of the investment and resulted in a gain of $96 million. The carrying value prior to the sale reflected the non-cash impairment charges taken in fiscal years 2015 and 2016. The gain is included in SG&A expense in the accompanying consolidated statements of earnings.

NOTE 6: Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance for fair value measurements establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

- Level 1 **-** inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities
- Level 2 **-** inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
- Level 3 **-** inputs to the valuation techniques that are unobservable for the assets or liabilities

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The Company's available-for-sale securities represented the only significant assets measured at fair value on a recurring basis for the fiscal years ended February 1, 2019 and February 2, 2018. The following table presents the Company's financial assets measured at fair value on a recurring basis. The fair values of these instruments approximated amortized costs.

(In millions)	Measurement Level	Fair Value Measurements at February 1, 2019	Fair Value Measurements at February 2, 2018
Available-for-sale securities:			
Money market funds	Level 1	$ 207	$ 86
Agency securities	Level 2	10	—
Corporate debt securities	Level 2	1	—
Certificates of deposit	Level 1	—	16
Total short-term investments		**$ 218**	**$ 102**
Available-for-sale securities:			
Corporate debt securities	Level 2	$ 191	$ —
Agency securities	Level 2	$ 65	$ —
Municipal floating rate obligations	Level 2	$ —	$ 407
Certificates of deposit	Level 1	—	1
Total long-term investments		**$ 256**	**$ 408**

There were no transfers between Levels 1, 2 or 3 during any of the periods presented.

When available, quoted prices were used to determine fair value. When quoted prices in active markets were available, investments were classified within Level 1 of the fair value hierarchy. When quoted prices in active markets were not available, fair values were determined using pricing models, and the inputs to those pricing models were based on observable market inputs. The inputs to the pricing models were typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

For the fiscal year ended February 1, 2019, the Company's only significant measurements of assets and liabilities at fair value on a nonrecurring basis subsequent to their initial recognition were goodwill (see Note 1 to the consolidated financial statements for additional information regarding this fair value measurement) and certain long-lived assets. For the fiscal year ended February 2, 2018, the Company had no significant measurements of assets and liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

Long-lived assets

The Company reviews the carrying amount of a long-lived asset (group) whenever certain events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets are grouped for review at the lowest level of identifiable cash flows. With input from executive management and retail store operations, the Company's accounting and finance personnel that organizationally report to the chief financial officer assess the performance of retail stores and other long-lived assets (groups) quarterly against historical patterns, projections of future profitability and whether it is more likely than not the assets (groups) will be disposed of significantly prior to the end of their estimated useful life for evidence of possible impairment. An impairment loss is recognized when the carrying amount of the asset or group is not recoverable and exceeds its fair value. The Company estimated the fair values of assets subject to long-lived asset impairment based on the Company's own judgments about the assumptions that market participants would use in pricing the assets and on observable market data, when available. The Company classified these fair value measurements as Level 3.

In the determination of impairment for operating locations, the Company determined the fair values of individual operating locations using an income approach, which required discounting projected future cash flows. When determining the stream of projected future cash flows associated with an individual operating location, management made assumptions, including highest and best use, incorporating local market conditions and inputs from retail store operations where necessary, and about key variables including the following unobservable inputs: sales growth rates, gross margin, controllable and uncontrollable expenses, and asset residual values. In order to calculate the present value of those future cash flows, the Company discounted cash flow estimates at a rate commensurate with the risk that selected market participants would assign to the cash flows. In general, the selected market participants represented a group of other retailers with a location footprint similar in size to the Company's. Any impairment identified is included in SG&A expense in the accompanying consolidated statements of earnings.

As part of a strategic reassessment of Orchard Supply Hardware (Orchard), during the three months ended August 3, 2018, it was determined to be more likely than not the assets of Orchard would be sold or otherwise disposed of significantly before the end of their previously estimated useful lives, and therefore, these assets experienced a triggering event and were evaluated for recoverability. Operating locations evaluated for recoverability included all Orchard stores, as well as a distribution facility that services the Orchard stores and a corporate facility. Based on this evaluation of Orchard, certain long-lived assets, including tangible and intangible assets, were written down to their fair value of $284 million resulting in impairment charges of $206 million.

During the three months ended November 2, 2018, the company committed to closing 20 U.S. home improvement stores and 31 locations in Canada, including 27 stores, as well as exiting certain non-core activities within its U.S. home improvement business. As a result of these decisions, the related assets experienced a triggering event and were evaluated for recoverability. Based on this evaluation, certain long-lived assets were written down to their fair value of $81 million resulting in impairment charges of $99 million.

In addition, during the three months ended November 2, 2018, it was determined to be more likely than not that the assets of the Mexico operations would be sold or otherwise disposed of significantly before the end of their previously estimated useful lives, and therefore, these assets experienced a triggering event and were evaluated for recoverability. Locations evaluated for recoverability included all 13 stores in Mexico, as well as a corporate facility. Based on this evaluation of the Mexico operations, certain long-lived assets were written down to their fair value of $107 million resulting in impairment charges of $22 million.

Assets held for sale
During the three months ended February 1, 2019, the Company committed to a plan to exit its Mexico operations and began marketing the operations to potential acquirers. In addition, the Company determined that the asset group is ready for immediate sale, completion of sale is probable within the next year, and no significant changes to the plan to sale are expected. Accordingly, as of February 1, 2019, the Company determined that the held-for sale criteria were met and measured the assets, including currency translation adjustments, of the Mexico operations at fair value less costs to sell of $79 million, resulting in an additional impairment charge of $222 million. The fair value of the Mexico operations was determined using a probability weighted approach of discounted cash flow and market multiple analyses and included management assumptions regarding expected sales growth, margin expansion, operational leverage, capital expenditures, and overall operational forecasts. The Company classified this fair value measurement as Level 3. These non-cash impairment charges are included in SG&A expense in the accompanying consolidated statements of earnings.

See Note 8 for additional information regarding the Company's decisions to exit its Orchard operations and certain U.S. and Canada locations during the third quarter and its decision to exit Mexico operations in the fourth quarter, as part of the Company's ongoing strategic reassessment of the business.

The following table presents the Company's assets measured at estimated fair value on a nonrecurring basis and the resulting impairment losses included in earnings, excluding costs to sell for excess properties held-for-sale. Because these assets subject to impairment were not measured at fair value on a recurring basis, certain fair value measurements presented in the table may reflect values at earlier measurement dates and may no longer represent the fair values at February 1, 2019.

Fair Value Measurements - Nonrecurring Basis

	February 1, 2019	
(In millions)	**Fair Value Measurements**	**Impairment Losses**
Assets-held-for-use:		
Operating locations	$ 473	$ (331)
Assets-held-for-sale:		
Mexico operating locations	$ 79	$ (222)
Goodwill (Note 1)	$ 2,851	$ (952)
Total	**$ 3,403**	**$ (1,505)**

Fair Value of Financial Instruments

The Company’s financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and long-term debt and are reflected in the financial statements at cost. With the exception of long-term debt, cost approximates fair value for these items due to their short-term nature. The fair values of the Company’s unsecured notes were estimated using quoted market prices. The fair values of the Company’s mortgage notes were estimated using discounted cash flow analyses, based on the future cash outflows associated with these arrangements and discounted using the applicable incremental borrowing rate.

Carrying amounts and the related estimated fair value of the Company’s long-term debt, excluding capitalized lease obligations, are as follows:

	February 1, 2019		February 2, 2018	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Unsecured notes (Level 1)	$ 14,721	$ 14,473	$ 14,961	$ 15,608
Mortgage notes (Level 2)	6	6	6	7
Long-term debt (excluding capitalized lease obligations)	**$ 14,727**	**$ 14,479**	**$ 14,967**	**$ 15,615**

NOTE 7: Property and Accumulated Depreciation

Property is summarized by major class in the following table:

(In millions)	Estimated Depreciable Lives, In Years	February 1, 2019	February 2, 2018
Cost:			
Land	N/A	$ 7,196	$ 7,414
Buildings and building improvements	5-40	18,052	18,521
Equipment	2-15	10,090	10,475
Construction in progress	N/A	525	530
Total cost		**35,863**	**36,940**
Accumulated depreciation		(17,431)	(17,219)
Property, less accumulated depreciation		**$ 18,432**	**$ 19,721**

Included in net property are assets under capital lease of $665 million, less accumulated depreciation of $244 million, at February 1, 2019, and $724 million less accumulated depreciation of $273 million, at February 2, 2018. The related amortization expense for assets under capital lease is included in depreciation expense. The Company recognized depreciation expense of $1.4 billion in 2018 and 2017, and $1.5 billion in 2016.

NOTE 8: Exit Activities

During the second quarter of fiscal year 2018, the Company initiated a strategic reassessment of its business to drive increased focus on its core home improvement operations. As a result of this reassessment, the Company decided to exit certain activities and close certain locations as further described below.

Orchard Supply Hardware (Orchard)

On August 17, 2018, the Company approved plans to exit its Orchard operations by closing all 99 Orchard stores, which are located in California, Oregon and Florida, as well as the distribution facility that services the Orchard stores, and the Orchard corporate office. To facilitate an orderly wind-down, the Company partnered with Hilco Merchant Services to help manage the store closing sales process and provide a seamless experience for customers. All facilities were closed by the end of fiscal year 2018.

During the second quarter ended August 3, 2018, the Company recorded $230 million of pre-tax charges associated with its Orchard operations. This included $206 million of impairment of certain long-lived assets, including tangible and intangible assets, due to the determination it was more likely than not the assets of Orchard would be sold or otherwise disposed of significantly before the end of their previously estimated useful lives (see Note 6 to the consolidated financial statements) and $24 million related primarily to three store projects that were discontinued during the quarter. During the third quarter ended November 2, 2018, the Company recorded $123 million of pre-tax charges related to the exit of its Orchard operations, including accelerated depreciation and amortization of $103 million, severance costs of $11 million, and costs associated with lease obligations of $9 million During the fourth quarter ended February 1, 2019, the Company recorded $208 million of additional pre-tax charges related to lease obligation costs at the cease use date of the individual facilities.

U.S. and Canada Location Closings

On October 31, 2018, the Company committed to closing 20 U.S. home improvement stores and 31 locations in Canada, including 27 stores. The store closings were completed in the fourth quarter of fiscal 2018. In addition, the Company concurrently decided to no longer pursue a new store project that was in process. As a result of these decisions, during the third quarter ended November 2, 2018, the Company recorded $121 million of pre-tax charges, including $90 million of impairment of certain long-lived assets (see Note 6 to the consolidated financial statements), severance costs of $21 million, and discontinued project costs of $10 million. The Company recorded $150 million of additional pre-tax charges during the fourth quarter ended February 1, 2019, including lease obligation costs of $89 million, accelerated depreciation of $50 million, and severance costs of $11 million.

Mexico Operations

On November 9, 2018, subsequent to the end of the Company's third quarter of fiscal 2018, management and the Board of Directors decided to pursue an exit of the Company's Mexico operations. During the third quarter ended November 2, 2018, the Company recorded $22 million of pre-tax charges associated with long-lived asset impairment due to the determination it was more likely than not the assets of the Mexico operations would be sold or otherwise disposed of significantly before the end of their previously estimated useful lives.

During the fourth quarter ended February 1, 2019, the Company committed to a plan to exit its Mexico operations and classified these assets as held for sale. As a result, impairment charges of $222 million were recorded during the quarter to measure the Mexico operations at fair value less costs to sell. (See Note 6 for additional information regarding these fair value measurements).

Other Non-Core Activities

During the third quarter ended November 2, 2018, the Company decided to pursue an exit of certain non-core activities within its U.S. home improvement business. As a result of these decisions, during the third quarter ended November 2, 2018, the Company recorded $14 million of pre-tax charges, including long-lived asset impairments of $9 million (see Note 6 to the consolidated financial statements), and the write-down of inventory to net realizable value of $5 million. During the fourth quarter ended February 1, 2019, the Company recorded additional pre-tax charges of $32 million, including closing costs of $27 million, severance costs of $3 million, and write-down of inventory to net realizable value of $2 million.

In addition, during the fourth quarter ended February 1, 2019, the Company decided to eliminate the Projects Specialists Interiors positions from its U.S. home improvement stores. As a result of the elimination of this position, the Company recorded $13 million of pre-tax charges related to severance costs.

A summary of the significant components of charges associated with the exit activities discussed above, are as follows:

	Costs Incurred			
(In millions)	Three Months Ended August 3, 2018	Three Months Ended November 2, 2018	Three Months Ended February 1, 2019	Year Ended February 1, 2019
Long-lived asset impairments	$ 206	$ 121	$ 222	$ 549
Lease obligation costs for closed locations	—	9	298	307
Accelerated depreciation and amortization	—	103	50	153
Severance costs	—	32	26	58
Discontinued project write-offs	24	10	—	34
Inventory adjustments to net realizable value	—	5	2	7
Other closing costs	—	—	27	27
Total	**$ 230**	**$ 280**	**$ 625**	**$ 1,135**

All estimated amounts are subject to change until finalized. Expenses associated with long-lived asset impairment, discontinued projects, severance, and lease obligations, are included in SG&A expense in the consolidated statement of earnings. Inventory adjustments to net realizable value are included in cost of sales in the consolidated statement of earnings. Severance costs of $33 million remain accrued as of February 1, 2019 related to the Company’s strategic reassessment of the business.

The following table summarizes store closing lease obligations activity during the twelve months ended February 1, 2019:

	2018
(In millions)	Lease obligations
Accrual for exit activities, balance at the beginning of period	$ 60
Additions to the accrual - net	365
Cash payments	(86)
Adjustments [1]	22
Accrual for exit activities, balance at the end of period	$ 361

[1] *Adjustments represents changes in estimates around sublease assumptions.*

NOTE 9: Short-Term Borrowings

In September 2018, the Company entered into a $1.75 billion five year unsecured revolving second amended and restated credit agreement (the Second Amended and Restated Credit Agreement) with a syndicate of banks. The Second Amended and Restated Credit Agreement amends and restates the Company’s amended and restated credit agreement, dated November 23, 2016 (the Amended and Restated Credit Agreement), to among other things (i) extend the maturity date of the revolving credit facility to September 2023 and (ii) modify the revolving commitments of the existing lenders. The Company may request borrowings under the Second Amended and Restated Credit Agreement that are denominated in U.S. Dollar, Euro, Sterling, Canadian Dollar and other currencies approved by the administrative agent and the lenders. Borrowings under the Second Amended and Restated Credit Agreement will bear interest calculated according to a Base Rate or a Eurocurrency Rate, plus an applicable margin.

In January 2019, the Company increased the aggregate availability under the Second Amended and Restated Credit Agreement by $230 million for a total of $1.98 billion available. Subject to obtaining commitments from the lenders and satisfying other conditions specified in the Second Amended and Restated Credit Agreement, the Company may increase the aggregate availability by an additional $270 million. The Second Amended and Restated Credit Agreement contains customary representations, warranties, and covenants for a transaction of this type. The Company was in compliance with those covenants at February 1, 2019.

In September 2018, the Company entered into a $250 million unsecured 364-day credit agreement (the 364-Day Credit Agreement) with a syndicate of banks. The Company may request borrowings under the 364-Day Credit Agreement that are denominated in U.S. Dollar, Euro, Sterling, Canadian Dollar and other currencies approved by the administrative agent and the lenders. The Company must repay the aggregate principal amount of loans outstanding under the 364-Day Credit Agreement on the termination date in effect at such time (currently September 9, 2019). The Company may elect to convert all of the loans outstanding under the 364-Day Credit Agreement on the termination date into a term loan which the Company shall repay in full on the first anniversary date of the termination date. Borrowings under the 364-Day Credit Agreement will bear interest calculated according to a Base Rate or a Eurocurrency Rate plus an applicable margin. The 364-Day Credit Agreement contains customary representations, warranties and covenants for a transaction of this type. The Company was in compliance with those covenants at February 1, 2019.

The Second Amended and Restated Credit Agreement and the 364-Day Credit Agreement both support our commercial paper program. The amount available to be drawn under the Second Amended and Restated Credit Agreement and the 364-Day Credit Agreement is reduced by the amount of borrowings under our commercial paper program. Outstanding borrowings under the Company's commercial paper program were $722 million, with a weighted average interest rate of 2.81%, as of February 1, 2019, and $1.1 billion, with a weighted average interest rate of 1.85%, as of February 2, 2018. There were no outstanding borrowings under the Second Amended and Restated Credit Agreement or the 364-Day Credit Agreement as of February 1, 2019. There were no outstanding borrowings under the Amended and Restated Credit Agreement as of February 2, 2018.

NOTE 10: Long-Term Debt

Debt Category (In millions)	Weighted-Average Interest Rate at February 1, 2019	February 1, 2019	February 2, 2018
Secured debt:			
Mortgage notes due through fiscal 2027 [1]	5.26 %	$ 6	$ 6
Unsecured debt:			
Notes due through fiscal 2023	3.43 %	3,832	4,079
Notes due fiscal 2024-2028	3.30 %	4,393	4,389
Notes due fiscal 2029-2033	6.50 %	309	309
Notes due fiscal 2034-2038	5.96 %	897	897
Notes due fiscal 2039-2043	4.96 %	1,411	1,410
Notes due fiscal 2044-2048	4.01 %	3,879	3,877
Capitalized lease obligations due through fiscal 2038		774	891
Total long-term debt		**15,501**	**15,858**
Less current maturities		(1,110)	(294)
Long-term debt, excluding current maturities		**$ 14,391**	**$ 15,564**

[1] *Real properties with an aggregate book value of $16 million were pledged as collateral at February 1, 2019, for secured debt.*

Debt maturities, exclusive of unamortized original issue discounts, unamortized debt issuance costs, and capitalized lease obligations, for the next five years and thereafter are as follows: 2019, $1.1 billion; 2020, $500 million; 2021, $1.0 billion; 2022, $766 million; 2023, $500 million; thereafter, $11.0 billion.

The Company's unsecured notes are issued under indentures that generally have similar terms and, therefore, have been grouped by maturity date for presentation purposes in the table above. The notes contain certain restrictive covenants, none of which are expected to impact the Company's capital resources or liquidity. The Company was in compliance with all covenants of these agreements at February 1, 2019.

Unsecured notes issued during 2016 were as follows:

Issue Date	Principal Amount (in millions)		Maturity Date	Fixed vs. Floating	Interest Rate	Discount (in millions)	
April 2016	$	250	April 2019	Floating	Floating	$	1
April 2016	$	350	April 2019	Fixed	1.150%	$	1
April 2016	$	1,350	April 2026	Fixed	2.500%	$	12
April 2016	$	1,350	April 2046	Fixed	3.700%	$	19

The floating rate notes issued in 2016 will bear interest at a floating rate, reset quarterly, equal to the three-month LIBOR-plus 0.240% (3.027% as of February 1, 2019). Interest on these floating rate notes is payable quarterly in arrears in April, July, October, and January of each year until maturity. Interest on the fixed rate notes issued in 2016 is payable semiannually in arrears in April and October of each year until maturity.

Unsecured notes issued during 2017 were as follows:

Issue Date	Principal Amount (in millions)		Maturity Date	Fixed vs. Floating	Interest Rate	Discount (in millions)	
May 2017	$	1,500	May 2027	Fixed	3.100%	$	9
May 2017	$	1,500	May 2047	Fixed	4.050%	$	23

Interest on the notes issued in 2017 is payable semiannually in arrears in May and November of each year until maturity.

The discounts associated with these issuances, which include the underwriting and issuance discounts, are recorded in long-term debt and are being amortized over the respective terms of the notes using the effective interest method.

The indentures governing the fixed rate notes issued in 2017 and 2016 contain a provision that allows the Company to redeem the notes at any time, in whole or in part, at specified redemption prices plus accrued interest to the date of redemption. We do not have the right to redeem the floating rate notes issued in 2016 prior to maturity. The indentures also contain a provision that allows the holders of the notes to require the Company to repurchase all or any part of their notes if a change of control triggering event (as defined in the indentures) occurs. If elected under the change of control provisions, the repurchase of the notes will occur at a purchase price of 101% of the principal amount, plus accrued and unpaid interest on such notes to the date of purchase, if any. The indentures governing the notes do not limit the aggregate principal amount of debt securities that the Company may issue and do not require the Company to maintain specified financial ratios or levels of net worth or liquidity. However, the indenture includes various restrictive covenants, none of which is expected to impact the Company's liquidity or capital resources.

During 2017, the Company completed a cash tender offer to purchase and retire $1.6 billion combined aggregate principal amount of its outstanding notes and recognized a loss on extinguishment of debt of $464 million.

NOTE 11: Shareholders' Equity

Authorized shares of preferred stock were 5.0 million ($5 par value) at February 1, 2019, and February 2, 2018, none of which have been issued. The Board of Directors may issue the preferred stock (without action by shareholders) in one or more series, having such voting rights, dividend and liquidation preferences, and such conversion and other rights as may be designated by the Board of Directors at the time of issuance.

Authorized shares of common stock were 5.6 billion ($.50 par value) at February 1, 2019, and February 2, 2018.

The Company has a share repurchase program that is executed through purchases made from time to time either in the open market or through private off-market transactions. Shares purchased under the repurchase program are retired and returned to authorized and unissued status. On January 26, 2018, the Company's Board of Directors authorized a $5.0 billion share repurchase under the program with no expiration, which was announced on the same day. On December 12, 2018, the Company’s Board of Directors authorized an additional $10.0 billion share repurchase under the program with no expiration, which was announced the same day. As of February 1, 2019, the Company had $13.9 billion remaining under the program.

During the year ended February 1, 2019, the Company entered into Accelerated Share Repurchase (ASR) agreements with third-party financial institutions to repurchase a total of 11.0 million shares of the Company's common stock for $1.1 billion. At inception, the Company paid the financial institutions using cash on hand and took initial delivery of shares. Under the terms of the ASR agreements, upon settlement, the Company would either receive additional shares from the financial institution or be required to deliver additional shares or cash to the financial institution. The Company controlled its election to either deliver additional shares or cash to the financial institution and was subject to provisions which limited the number of shares the Company would be required to deliver.

The final number of shares received upon settlement of each ASR agreement was determined with reference to the volume-weighted average price of the Company's common stock over the term of the ASR agreement. The initial repurchase of shares under these agreements resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings per share.

These ASR agreements were accounted for as treasury stock transactions and forward stock purchase contracts. The par value of the shares received was recorded as a reduction to common stock with the remainder recorded as a reduction to capital in excess of par value and retained earnings. The forward stock purchase contracts were considered indexed to the Company's own stock and were classified as equity instruments.

The terms of each ASR agreement entered into during the last three fiscal years, structured as outlined above, follow (in millions):

Agreement Execution Date	ASR Settlement Date	ASR Agreement Amount	Initial Shares Delivered	Additional Shares Delivered at Settlement	Total Shares Delivered
Q1 2016	Q2 2016	$ 500	6.2	0.6	6.8
Q2 2016	Q3 2016	500	5.3	1.0	6.3
Q3 2016	Q3 2016	250	2.8	0.6	3.4
Q4 2016	Q4 2016	190	2.4	0.2	2.6
Q1 2017	Q1 2017	500	5.3	0.8	6.1
Q2 2017	Q2 2017	500	5.2	1.2	6.4
Q3 2017	Q3 2017	250	2.9	0.3	3.2
Q2 2018	Q2 2018	550	4.8	0.8	5.6
Q3 2018	Q3 2018	310	2.5	0.3	2.8
Q4 2018	Q1 2019	270	2.6	0.3	2.9

During the year ended February 1, 2019, the Company also repurchased shares of its common stock through the open market totaling 20.2 million shares for a cost of $1.9 billion.

The Company also withholds shares from employees to satisfy either the exercise price of stock options exercised or the statutory withholding tax liability resulting from the vesting of restricted stock awards and performance share units.

Shares repurchased for 2018, 2017 and 2016 were as follows:

	2018		2017		2016	
(In millions)	**Shares**	**Cost [1]**	**Shares**	**Cost [1]**	**Shares**	**Cost [1]**
Share repurchase program	31.2	$ 2,999	39.1	$ 3,133	46.7	$ 3,500
Shares withheld from employees	0.5	46	0.5	41	1.0	77
Total share repurchases	**31.7**	**$ 3,045**	**39.6**	**$ 3,174**	**47.7**	**$ 3,577**

[1] *Reductions of $2.8 billion, $2.9 billion, and $3.3 billion were recorded to retained earnings, after capital in excess of par value was depleted, for 2018, 2017, and 2016, respectively.*

Table of Contents

NOTE 12: Accounting for Share-Based Payments

Overview of Share-Based Payment Plans

The Company has a number of active and inactive equity incentive plans (the Incentive Plans) under which the Company has been authorized to grant share-based awards to key employees and non-employee directors. The Company also has an employee stock purchase plan (the ESPP) that allows employees to purchase Company shares at a discount through payroll deductions. All of these plans contain a non-discretionary anti-dilution provision that is designed to equalize the value of an award as a result of any stock dividend, stock split, recapitalization, or any other similar equity restructuring.

A total of 199.0 million shares have been previously authorized for grant to key employees and non-employee directors under all of the Company's Incentive Plans, but only 80.0 million of those shares were authorized for grants of share-based awards under the Company's currently active Incentive Plans. In addition, a total of 70.0 million shares have been previously authorized for purchases by employees participating in the ESPP.

At February 1, 2019, there were 32.3 million shares remaining available for grants under the currently active Incentive Plans and 21.0 million shares remaining available for purchases under the ESPP.

The Company recognized share-based payment expense within SG&A expense in the consolidated statements of earnings of $74 million, $99 million, and $90 million in 2018, 2017 and 2016 respectively. The total associated income tax benefit recognized was $15 million, $31 million and $29 million in 2018, 2017 and 2016, respectively.

Total unrecognized share-based payment expense for all share-based payment plans was $113 million at February 1, 2019, of which $59 million will be recognized in 2019, $42 million in 2020 and $12 million thereafter. This results in these amounts being recognized over a weighted-average period of 1.9 years.

For all share-based payment awards, the expense recognized has been adjusted for estimated forfeitures where the requisite service is not expected to be provided. Estimated forfeiture rates are developed based on the Company's analysis of historical forfeiture data for homogeneous employee groups.

General terms and methods of valuation for the Company's share-based awards are as follows:

Stock Options

Stock options have terms of seven or 10 years, with one-third of each grant vesting each year for three years, and are assigned an exercise price equal to the closing market price of a share of the Company's common stock on the date of grant. Options are expensed on a straight-line basis over the grant vesting period, which is considered to be the requisite service period.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. When determining expected volatility, the Company considers the historical volatility of the Company's stock price, as well as implied volatility. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant, based on the options' expected term. The expected term of the options is based on the Company's evaluation of option holders' exercise patterns and represents the period of time that options are expected to remain unexercised. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted average assumptions used in the Black-Scholes option-pricing model and weighted-average grant date fair value for options granted in 2018, 2017, and 2016 are as follows:

	2018	2017	2016
Weighted-average assumptions used:			
Expected volatility	23.3 %	23.6 %	24.0 %
Dividend yield	1.71 %	1.68 %	1.66 %
Risk-free interest rate	2.71 %	2.14 %	1.42 %
Expected term, in years	6.58	6.43	6.44
Weighted-average grant date fair value	$ 21.12	$ 18.30	$ 15.00

The total intrinsic value of options exercised, representing the difference between the exercise price and the market price on the date of exercise, was approximately \$36 million, \$77 million and \$73 million in 2018, 2017 and 2016, respectively.

Table of Contents

Transactions related to stock options for the fiscal year ended February 1, 2019 are summarized as follows:

	Shares (In thousands)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at February 2, 2018	2,815	$ 60.84		
Granted	1,021	90.75		
Canceled, forfeited or expired	(385)	79.63		
Exercised	(760)	55.95		
Outstanding at February 1, 2019	2,691	$ 70.87	7.10	$ 72,613
Vested and expected to vest at February 1, 2019 [1]	2,610	$ 70.18	7.04	$ 72,067
Exercisable at February 1, 2019	1,719	$ 60.49	6.03	$ 62,943

[1] *Includes outstanding vested options as well as outstanding nonvested options after a forfeiture rate is applied.*

Restricted Stock Awards

Restricted stock awards are valued at the market price of a share of the Company's common stock on the date of grant. In general, these awards vest at the end of a three-year period from the date of grant and are expensed on a straight-line basis over that period, which is considered to be the requisite service period. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted-average grant-date fair value per share of restricted stock awards granted was $86.99, $82.41 and $71.35 in 2018, 2017, and 2016, respectively. The total fair value of restricted stock awards vesting was approximately $85 million, $71 million and $151 million in 2018, 2017 and 2016, respectively.

Transactions related to restricted stock awards for the fiscal year ended February 1, 2019 are summarized as follows:

	Shares (In thousands)	Weighted-Average Grant-Date Fair Value Per Share
Nonvested at February 2, 2018	1,896	$ 73.21
Granted	1,021	86.99
Vested	(772)	70.93
Canceled or forfeited	(355)	77.73
Nonvested at February 1, 2019	1,790	$ 81.16

Deferred Stock Units

Deferred stock units are valued at the market price of a share of the Company's common stock on the date of grant. For non-employee Directors, these awards vest immediately and are expensed on the grant date. During 2018, 2017 and 2016, each non-employee Director was awarded a number of deferred stock units determined by dividing the annual award amount by the fair market value of a share of the Company's common stock on the award date and rounding up to the next 100 units. The annual award amount used to determine the number of deferred stock units granted to each Director was $175,000 for 2018 and 2017, and $150,000 for 2016. During 2018, the Company appointed a new Chairman of the Board who received an additional grant of deferred stock units. The award amount used to determine the additional units granted was $140,000. During 2018, 24,300 deferred stock units were granted and immediately vested for non-employee Directors. The weighted-average grant-date fair value per share of deferred stock units granted was $95.83, $80.22 and $80.35 in 2018, 2017 and 2016, respectively. The total fair value of deferred stock units vested was $2.3 million in 2018, $1.8 million in 2017, and $1.5 million in 2016. At February 1, 2019, there were 0.2 million deferred stock units outstanding, all of which were vested.

Performance Share Units

The Company issues performance share units classified as equity awards. Expense is recognized on a straight-line basis over the requisite service period, based on the probability of achieving the performance condition, with changes in expectations recognized as an adjustment to earnings in the period of the change. Compensation cost is not recognized for performance share units that do not vest because service or performance conditions are not satisfied and any previously recognized compensation cost is reversed. Performance share units do not have dividend rights. The Company uses historical data to estimate the timing and amount of forfeitures.

The Company's performance share units are classified as equity and contain performance and service conditions that must be satisfied for an employee to earn the right to benefit from the award. The performance condition is primarily based on the achievement of the Company's target return on non-cash average assets (RONCAA). These awards are valued at the market price of a share of the Company's common stock on the date of grant less the present value of dividends expected during the requisite service period.

In fiscal 2016, the Company began issuing performance share units that contain a market condition modifier, in addition to having a performance and service condition. The performance condition for these awards continues to be based primarily on the achievement of the Company's RONCAA targets. The market condition is based on the Company's total shareholder return (TSR) compared to the median TSR of companies listed in the S&P 500 Index over a three year performance period. The Company used a Monte-Carlo simulation to determine the grant date fair value for these awards, which takes into consideration the possible outcomes pertaining to the TSR market condition. The weighted-average assumptions used in the Monte Carlo simulations for these awards granted in 2018 and 2017 are as follows:

	2018	**2017**
Weighted-average assumptions used:		
Expected volatility	22.8 %	20.8 %
Dividend yield	1.77 %	1.62 %
Risk-free interest rate	2.36 %	1.46 %
Expected term, in years	2.81	2.83

In general, 0% to 200% of the Company's performance share units vest at the end of a three year service period from the date of grant based upon achievement of the performance condition, or a combination of the performance and market conditions, specified in the performance share unit agreement.

The weighted-average grant-date fair value per unit of performance share units classified as equity awards granted was $82.22, $91.50 and $77.58 in 2018, 2017 and 2016, respectively. The total fair value of performance share units vesting was approximately $13 million, $31 million, and $24 million in 2018, 2017, and 2016, respectively.

Transactions related to performance share units classified as equity awards for the fiscal year ended February 1, 2019 are summarized as follows:

	Units (In thousands)[1]	**Weighted-Average Grant-Date Fair Value Per Unit**
Nonvested at February 2, 2018	698	$ 81.31
Granted	320	82.22
Vested	(144)	71.22
Canceled or forfeited	(261)	82.09
Nonvested at February 1, 2019	613	$ 83.83

[1] *The number of units presented is based on achieving the targeted performance goals as defined in the performance share unit agreements. As of February 1, 2019, the maximum number of nonvested units that could vest under the provisions of the agreements was 1.2 million for the RONCAA awards.*

Restricted Stock Units

Restricted stock units do not have dividend rights and are valued at the market price of a share of the Company's common stock on the date of grant less the present value of dividends expected during the requisite service period. In general, these awards vest at the end of a three-year period from the date of grant and are expensed on a straight-line basis over that period, which is considered to be the requisite service period. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted-average grant-date fair value per share of restricted stock units granted was $80.32, $75.44 and $67.26 in 2018, 2017 and 2016, respectively. The total fair value of restricted stock units vesting was approximately $7.1 million, $5.6 million, and $7.7 million in 2018, 2017 and 2016, respectively.

Transactions related to restricted stock units for the fiscal year ended February 1, 2019 are summarized as follows:

	Shares (In thousands)	Weighted-Average Grant-Date Fair Value Per Share
Nonvested at February 2, 2018	277	$ 69.21
Granted	182	80.32
Vested	(63)	66.62
Canceled or forfeited	(67)	73.65
Nonvested at February 1, 2019	329	$ 74.95

ESPP

The purchase price of the shares under the ESPP equals 85% of the closing price on the date of purchase. The Company's share-based payment expense per share is equal to 15% of the closing price on the date of purchase. The ESPP is considered a liability award and is measured at fair value at each reporting date, and the share-based payment expense is recognized over the six-month offering period. The Company issued 0.9 million shares of common stock in 2018, 1.1 million shares of common stock in 2017, and 1.3 million shares of common stock in 2016 and recognized $13 million of share based payment expense pursuant to the plan in 2018 and 2017, and $15 million of share-based payment expense pursuant to the plan in 2016.

NOTE 13: Employee Retirement Plans

The Company maintains a defined contribution retirement plan for eligible employees (the 401(k) Plan). Eligible employees may participate in the 401(k) Plan six months after their original date of service. Eligible employees hired or rehired prior to November 1, 2012, were automatically enrolled in the 401(k) Plan at a contribution rate of 1% of their pre-tax annual compensation unless they elected otherwise. Eligible employees hired or rehired November 1, 2012, or later must make an active election to participate in the 401(k) Plan. The Company makes contributions to the 401(k) Plan each payroll period, based upon a matching formula applied to employee deferrals (the Company Match). Participants are eligible to receive the Company Match pursuant to the terms of the 401(k) Plan. The Company Match varies based on how much the employee elects to defer up to a maximum of 4.25% of eligible compensation. The Company Match is invested identically to employee contributions and is immediately vested.

The Company maintains a Benefit Restoration Plan to supplement benefits provided under the 401(k) Plan to participants whose benefits are restricted as a result of certain provisions of the Internal Revenue Code of 1986. This plan provides for employee salary deferrals and employer contributions in the form of a Company Match.

The Company maintains a non-qualified deferred compensation program called the Lowe's Cash Deferral Plan. This plan is designed to permit certain employees to defer receipt of portions of their compensation, thereby delaying taxation on the deferral amount and on subsequent earnings until the balance is distributed. This plan does not provide for Company contributions.

The Company recognized expense associated with these employee retirement plans of $164 million, $174 million and $180 million in 2018, 2017 and 2016, respectively.

Table of Contents

NOTE 14: Income Taxes

The following is a reconciliation of the federal statutory tax rate to the effective tax rate:

	2018	2017	2016
Statutory federal income tax rate [1]	21.0 %	33.7 %	35.0 %
State income taxes, net of federal tax benefit	4.8	2.9	3.6
Valuation allowance - Australian joint venture	—	(0.6)	2.0
Goodwill impairment	5.5	—	—
Mexico impairment	1.5	—	—
Other, net	(1.0)	1.2	(0.1)
Effective tax rate	**31.8 %**	**37.2 %**	**40.5 %**

[1] *The Company utilized a blended rate in 2017 due to the Tax Cuts and Job Act enacted on December 22, 2017.*

The components of the income tax provision are as follows:

(In millions)	2018	2017	2016
Current:			
Federal	$ 963	$ 1,734	$ 1,824
State	274	252	275
Total current [1]	**1,237**	**1,986**	**2,099**
Deferred:			
Federal	(102)	60	6
State	(55)	(4)	3
Total deferred [1]	**(157)**	**56**	**9**
Total income tax provision	**$ 1,080**	**$ 2,042**	**$ 2,108**

[1] *Amounts applicable to foreign income taxes were insignificant for all periods presented.*

The tax effects of cumulative temporary differences that gave rise to the deferred tax assets and liabilities were as follows:

(In millions)	February 1, 2019	February 2, 2018
Deferred tax assets:		
Self-insurance	$ 252	$ 238
Share-based payment expense	31	36
Deferred rent	58	66
Mexico impairment	74	—
Capital loss carryforwards	223	225
Net operating losses	239	213
Other, net	119	124
Total deferred tax assets	**996**	**902**
Valuation allowance	(569)	(475)
Net deferred tax assets	**427**	**427**
Deferred tax liabilities:		
Property	(76)	(264)
Other, net	(57)	(23)
Total deferred tax liabilities	**(133)**	**(287)**

Net deferred tax asset	**$**	**294**	**$**	**140**

The Tax Cuts and Job Act (Tax Act) was enacted on December 22, 2017. Among numerous changes to existing laws, the Tax Act lowered the corporate federal income tax rate from 35% to 21%, as well as established a one-time deemed repatriation tax, effective on January 1, 2018. In accordance with ASC 740, the effects of changes in tax rates on deferred tax balances are required to be taken into consideration in the period in which the changes are enacted versus when they are effective. During the fourth quarter of 2017, the Company recorded $56 million of provisional tax expense for the revaluation of its U.S. net deferred tax assets and a $22 million provisional tax expense for the one-time transition tax. A blended statutory tax rate of 33.7% was utilized for 2017 in accordance with Section 15 of the Internal Revenue Code. This blended rate resulted in a tax benefit of $58 million for the year. For 2018, the Company's effective tax rate differs from the 21% statutory rate primarily due to a goodwill impairment charge related to the Company's operations in Canada, the majority of which is non-deductible for tax purposes. In addition, the rate was impacted by the decision to exit Mexico retail operations, which resulted in the anticipated recapture of previously deducted losses, as well as other current charges associated with impairments that are expected to be non-deductible for tax purposes. The Company completed its assessment of the Tax Act's impact in January 2018, and in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin (SAB 118). The Company recorded an additional adjustment of $2 million in tax related to the one-time deemed repatriation transition tax.

As of February 1, 2019, the Company reported a deferred tax asset of $223 million, for the capital loss realized in 2017 for U.S. federal income tax purposes related to the exit from the Company's joint venture investment in Australia. Since no present or future capital gains have been identified through which the asset can be realized, the Company has a full valuation allowance against the deferred tax asset. For U.S. federal tax purposes, this loss has a five-year carryforward period expiring at the end of fiscal 2022.

In December 2016, the U.S. Treasury Department and the U.S. Internal Revenue Service issued final and temporary regulations under Internal Revenue Code Section 987 (the Regulations). The Regulations provide guidance on the taxation of foreign currency gains and losses arising from qualified business units that operate in a currency other than the currency of their owner. As a result of the enacted guidance, net deferred tax assets were increased by $26 million in 2018 and decreased by $11 million and $33 million in 2017 and 2016, respectively. The Company's plan to exit Mexico prior to the effective date of the Regulations resulted in $18 million of the deferred tax increase in 2018.

The Company operates as a branch in various foreign jurisdictions and cumulatively has incurred net operating losses of $800 million and $720 million as of February 1, 2019, and February 2, 2018, respectively. These net operating losses are subject to expiration in 2019 through 2038. Deferred tax assets have been established for these foreign net operating losses in the accompanying consolidated balance sheets. Given the uncertainty regarding the realization of the foreign net deferred tax assets, the Company recorded cumulative valuation allowances of $331 million and $234 million as of February 1, 2019, and February 2, 2018, respectively.

A reconciliation of the beginning and ending balances of unrecognized tax benefits is as follows:

(In millions)	2018	2017	2016
Unrecognized tax benefits, beginning of year	$ —	$ 6	$ 3
Additions for tax positions of prior years	10	—	3
Reductions for tax positions of prior years	—	(2)	—
Settlements	—	(1)	—
Reductions due to a lapse in applicable statute of limitations	—	(3)	—
Unrecognized tax benefits, end of year	**$ 10**	**$ —**	**$ 6**

The amounts of unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate were $8 million as of February 1, 2019, and $5 million as of February 3, 2017.

The Company recognized $3 million of interest expense, $3 million of interest income, and $2 million of interest expense related to uncertain tax positions during 2018, 2017, and 2016, respectively. The Company had $3 million of accrued interest related to uncertain tax positions as of February 1, 2019. The Company had no accrued interest related to uncertain tax positions as of February 2, 2018.

Penalties recognized related to uncertain tax positions were insignificant for 2018, 2017, and 2016. Accrued penalties were also insignificant as of February 1, 2019 and February 2, 2018.

The Company is subject to examination by various foreign and domestic taxing authorities. There are ongoing U.S. state audits covering tax years 2013 to 2017. An audit of the Company's Canadian operations by the Canada Revenue Agency for fiscal years 2014 and 2015 is on-going. The Company remains subject to income tax examinations for international income taxes for fiscal years 2012 through 2017. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and open years.

Note 15: Earnings Per Share

The Company calculates basic and diluted earnings per common share using the two-class method. Under the two-class method, net earnings are allocated to each class of common stock and participating security as if all of the net earnings for the period had been distributed. The Company's participating securities consist of share-based payment awards that contain a nonforfeitable right to receive dividends and, therefore, are considered to participate in undistributed earnings with common shareholders.

Basic earnings per common share excludes dilution and is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares as of the balance sheet date, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings per common share for 2018, 2017 and 2016:

(In millions, except per share data)		**2018**		**2017**		**2016**
Basic earnings per common share:						
Net earnings attributable to Lowe's Companies, Inc.	$	2,314	$	3,447	$	3,091
Less: Net earnings allocable to participating securities		(7)		(11)		(11)
Less: Premium paid to acquire noncontrolling interest		—		—		(18)
Net earnings allocable to common shares, basic	**$**	**2,307**	**$**	**3,436**	**$**	**3,062**
Weighted-average common shares outstanding		**811**		**839**		**880**
Basic earnings per common share	**$**	**2.84**	**$**	**4.09**	**$**	**3.48**
Diluted earnings per common share:						
Net earnings attributable to Lowe's Companies, Inc.	$	2,314	$	3,447	$	3,091
Less: Net earnings allocable to participating securities		(7)		(11)		(11)
Less: Premium paid to acquire noncontrolling interest		—		—		(18)
Net earnings allocable to common shares, diluted	**$**	**2,307**	**$**	**3,436**	**$**	**3,062**
Weighted-average common shares outstanding		811		839		880
Dilutive effect of non-participating share-based awards		1		1		1
Weighted-average common shares, as adjusted		**812**		**840**		**881**
Diluted earnings per common share	**$**	**2.84**	**$**	**4.09**	**$**	**3.47**

As discussed in Note 4 to the consolidated financial statements, the Company paid RONA's preferred shareholders a premium to acquire the remaining noncontrolling interest in RONA during the fourth quarter of fiscal 2016. The premium paid was accounted for as a capital transaction and as such, no loss was recognized in the Company's consolidated financial statements. However, the premium paid represents a return on investment to RONA's preferred shareholders and is not available to common shareholders. Therefore, the premium paid to acquire the remaining noncontrolling interest is reflected in the table above as a deduction from net earnings to compute net earnings allocable to common shares.

Stock options to purchase 0.5 million, 0.5 million and 1.0 million shares of common stock for 2018, 2017 and 2016, respectively, were excluded from the computation of diluted earnings per common share because their effect would have been anti-dilutive.

NOTE 16: Leases

The Company leases facilities and land for certain facilities under agreements with original terms generally of 20 years. The leases generally contain provisions for four to six renewal options of five years each. Some lease agreements also provide for contingent rentals based on sales performance in excess of specified minimums or on changes in the consumer price index. Contingent rentals were not significant for any of the periods presented. The Company subleases certain properties that are not used in its operations. Sublease income was not significant for any of the periods presented.

The future minimum rental payments required under operating leases and capitalized lease obligations having initial or remaining non-cancelable lease terms in excess of one year are summarized as follows:

(In millions) Fiscal Year		**Operating Leases**		**Capitalized Lease Obligations**		**Total**
2019	$	595	$	133	$	728
2020		605		87		692
2021		564		90		654
2022		519		87		606
2023		473		86		559
Later years		2,609		783		3,392
Total minimum lease payments	**$**	**5,365**	**$**	**1,266**	**$**	**6,631**
Less amount representing interest				(492)		
Present value of minimum lease payments				**774**		
Less current maturities				(65)		
Present value of minimum lease payments, less current maturities			**$**	**709**		

Rental expenses under operating leases were $616 million, $626 million and $549 million in 2018, 2017 and 2016, respectively, and were recognized within SG&A expense. Excluded from these amounts are rental expenses associated with closed locations which were recognized as exit costs in the period of closure.

NOTE 17: Commitments and Contingencies

The Company is, from time to time, party to various legal proceedings considered to be in the normal course of business, none of which, individually or in the aggregate, are expected to be material to the Company’s financial statements. In evaluating liabilities associated with its various legal proceedings, the Company has accrued for probable liabilities associated with these matters. The amounts accrued were not material to the Company’s consolidated financial statements in any of the years presented. Reasonably possible losses for any of the individual legal proceedings which have not been accrued were not material to the Company’s consolidated financial statements.

As of February 1, 2019, the Company had non-cancellable commitments of $1.0 billion related to certain marketing and information technology programs, and purchases of merchandise inventory. Payments under these commitments are scheduled to be made as follows: 2019, $564 million; 2020, $352 million; 2021, $86 million; 2022, $20 million; thereafter, $0 million.

At February 1, 2019, the Company held standby and documentary letters of credit issued under banking arrangements which totaled $59 million. The majority of the Company’s letters of credit were issued for insurance and construction contracts.

NOTE 18: Related Parties

A member of the Company’s Board of Directors also serves on the Board of Directors of a vendor that provides branded consumer packaged goods to the Company. The Company purchased products from this vendor in the amount of $156 million in 2018, $149 million in 2017, and $124 million in 2016. Amounts payable to this vendor were insignificant at February 1, 2019 and February 2, 2018.

A member of the Company’s Board of Directors also serves on the Board of Directors of a vendor that provides certain services to the Company related to health and welfare benefit plans. The Company made payments to this vendor in the amount of $2 million in 2018, $14 million in 2017, and $59 million in 2016. Amounts payable to this vendor were insignificant at February 1, 2019 and February 2, 2018.

The Company’s President and Chief Executive Officer also serves on the Board of Directors of a vendor that provides transportation and business services to the Company. The Company purchased services from this vendor in the amount of $91 million in 2018. Amounts payable to this vendor were insignificant at February 1, 2019. This was not considered a related party relationship in 2017 or 2016.

NOTE 19: Other Information

Net interest expense is comprised of the following:

(In millions)	2018	2017	2016
Long-term debt	$ 582	$ 582	$ 583
Capitalized lease obligations	58	56	53
Interest income	(28)	(16)	(12)
Interest capitalized	(3)	(5)	(4)
Interest on tax uncertainties	3	(3)	2
Other	12	19	23
Interest - net	**$ 624**	**$ 633**	**$ 645**

Supplemental disclosures of cash flow information:

(In millions)	2018	2017	2016
Cash paid for interest, net of amount capitalized	$ 635	$ 654	$ 619
Cash paid for income taxes, net	$ 1,316	$ 1,673	$ 2,217
Non-cash investing and financing activities:			
Non-cash property acquisitions, including assets acquired under capital lease	$ 44	$ 97	$ 86
Cash dividends declared but not paid	$ 385	$ 340	$ 304

Sales by product category:

	2018		2017		2016	
(Dollars in millions)	Total Sales	%	Total Sales	%	Total Sales	%
Lumber & Building Materials	$ 9,968	14 %	$ 9,517	14 %	$ 8,513	13 %
Appliances	8,391	12	7,696	11	7,037	11
Seasonal & Outdoor Living	7,352	10	7,162	10	6,998	11
Tools & Hardware	6,906	10	6,723	10	6,376	10
Fashion Fixtures	6,351	9	6,424	9	6,303	10
Rough Plumbing & Electrical	6,327	9	6,142	9	5,741	9
Lawn & Garden	5,433	8	5,222	8	5,091	8
Millwork	5,381	8	5,308	8	5,238	8
Paint	5,263	7	5,297	8	5,171	8
Flooring	4,282	6	4,363	6	4,227	6
Kitchens	3,700	5	3,642	5	3,532	5
Other	1,955	2	1,123	2	790	1
Totals	$ 71,309	100 %	$ 68,619	100 %	$ 65,017	100 %

NOTE 20: Derivative Instruments

In February 2016, the Company entered into an option to purchase 3.2 billion Canadian dollars in order to manage the foreign currency exchange rate risk on the consideration to be paid for the RONA acquisition. This option contract was not accounted for as a hedging instrument, and gains and losses resulting from changes in fair value and settlement were included in SG&A expense in the accompanying consolidated statements of earnings. The cash flows related to this option were included within investing activities in the accompanying consolidated statements of cash flows.

The premium paid for the foreign currency exchange option contract was $103 million. The option contract was settled during the second quarter of fiscal year 2016 for $179 million, resulting in a total realized gain of $76 million for the fiscal year ended February 3, 2017.

The Company's other derivative instruments, and related activity, were not material in any of the periods presented.

SUPPLEMENTARY DATA

Selected Quarterly Data (UNAUDITED)

The following table summarizes the quarterly consolidated results of operations for 2018 and 2017:

	2018[1]			
(In millions, except per share data)	First	Second [2]	Third [3]	Fourth [4]
Net sales	$ 17,360	$ 20,888	$ 17,415	$ 15,647
Gross margin	5,748	6,885	5,377	4,898
Net earnings/(loss)	988	1,520	629	(824)
Basic earnings/(loss) per common share	1.19	1.86	0.78	(1.03)
Diluted earnings/(loss) per common share	$ 1.19	$ 1.86	$ 0.78	$ (1.03)

	2017[1]			
(In millions, except per share data)	First [5]	Second [6]	Third	Fourth [7]
Net sales	$ 16,860	$ 19,495	$ 16,770	$ 15,494
Gross margin	5,595	6,420	5,454	4,964
Net earnings	602	1,419	872	554
Basic earnings per common share	0.70	1.68	1.05	0.67
Diluted earnings per common share	$ 0.70	$ 1.68	$ 1.05	$ 0.67

[1] *In the fourth quarter of fiscal 2018, the Company changed its method of accounting for shipping and handling costs from the Company's stores, distribution centers, and other locations to customers. Under the new accounting principle, shipping and handling costs related to the delivery of products from the Company to customers are included in cost of sales, whereas they were previously presented in selling, general, and administrative expense, and depreciation and amortization. Amounts presented for fiscal years 2018 and 2017 reflect adjusted amounts in accordance with this accounting principle change. See Note 2 to the consolidated financial statements for additional information on the accounting principle change.*

[2] *The second quarter of fiscal 2018 includes pre-tax charges totaling $230 million related to long lived asset impairments and discontinued projects associated with the Company's decision to close all Orchard Supply Hardware locations.*

[3] *The third quarter of fiscal 2018 includes the following pre-tax charges: $123 million related to accelerated depreciation and amortization, severance and lease obligation costs associated with the Company's decision to close all Orchard Supply Hardware locations; $121 million related to long-lived asset impairment and severance costs associated with the Company's decision to close 20 U.S. stores and 31 stores and other locations in Canada; $22 million related to long-lived asset impairments associated with the Company's decision to exit its Mexico retail operations; and $14 million associated with long-lived asset impairments and inventory write-down related to the Company's decision to exit certain non-core activities within its U.S. Home Improvement business.*

[4] *The fourth quarter of fiscal 2018 includes the following pre-tax charges: $952 million of goodwill impairment associated with the Company's Canadian operations; $222 million related to impairments associated with the Company's decision to exit its Mexico retail operations; $208 million related primarily to lease obligation costs associated with the Company's decision to close all Orchard Supply Hardware locations; $150 million related to accelerated depreciation, severance and lease obligation costs associated with the Company's decision to close 20 U.S. stores and 31 stores and other locations in Canada; $32 million related to the Company's decision to exit certain non-core activities within its U.S. home improvement business; and $13 million related of severance costs associated with the elimination of the Project Specialists Interiors position.*

[5] *The first quarter of fiscal 2017 includes a $464 million pre-tax loss on extinguishment of debt in connection with a $1.6 billion cash tender offer.*

[6] *The second quarter of fiscal 2017 includes a $96 million gain from the sale of the Company's interest in its Australian joint venture with Woolworths.*

[7] *The fourth quarter of fiscal 2017 includes the $20 million net impact associated with the Tax Cuts and Jobs Act of 2017 and $66 million from a one-time cash bonus to eligible hourly employees attributable to the passage of the Tax Cuts and Jobs Act of 2017.*

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A - Controls and Procedures

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's "disclosure controls and procedures", (as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act)). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Annual Report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management's report on internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) and the report of Deloitte & Touche LLP, the Company's independent registered public accounting firm, are included in Item 8 of this Annual Report.

In addition, no change in the Company's internal control over financial reporting occurred during the fiscal fourth quarter ended February 1, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B - Other Information

None.

Part III

Item 10 - Directors, Executive Officers and Corporate Governance

The information required by this item with respect to our executive officers appears in Part I of this Annual Report under the heading, "Executive Officers of the Registrant". The other information required by this item is furnished by incorporation by reference to the information under the headings "Proposal 1: Election of Directors", "Information About the Board of Directors and Committees of the Board", "Section 16(a) Beneficial Ownership Reporting Compliance", and "Additional Information - Shareholder Proposals for the 2020 Annual Meeting" in the definitive Proxy Statement for the 2019 annual meeting of shareholders, which will be filed with the SEC within 120 days after the fiscal year ended February 1, 2019 (the Proxy Statement).

We have adopted a written code of business conduct and ethics, which is intended to qualify as a "code of ethics" within the meaning of Item 406 of Regulation S-K of the Exchange Act, which we refer to as the Lowe's Code of Business Conduct and Ethics (the Code). The Code applies to all employees of the Company, including our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions. The Code is designed to ensure that the Company's business is conducted in a legal and ethical manner. The Code covers all areas of professional conduct, including compliance with laws and regulations, conflicts of interest, fair dealing among customers and suppliers, corporate opportunity, confidential information, insider trading, employee relations, and accounting complaints. The full text of the Code can be found on our website at www.Lowes.com, under the "About Lowe's", "Investor Relations", and "Governance - Code of Business Conduct and Ethics" headings. You can also obtain a copy of the complete Code by contacting Investor Relations at 1-800-813-7613.

We will disclose information pertaining to amendments or waivers to provisions of the Code that apply to our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions and that relate to any element of the Code enumerated in the SEC rules and regulations by posting this information on our website at www.Lowes.com. The information on our website is not a part of this Annual Report and is not incorporated by reference in this report or any of our other filings with the SEC.

Item 11 - Executive Compensation

The information required by this item is furnished by incorporation by reference to the information under the headings "Information About the Board of Directors and Committees of the Board – Compensation of Directors", "Compensation Discussion and Analysis", "Compensation Tables", and "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement.

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is furnished by incorporation by reference to the information under the headings "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the Proxy Statement.

Item 13 - Certain Relationships and Related Transactions, and Director Independence

The information required by this item is furnished by incorporation by reference to the information under the headings "Information About the Board of Directors and Committees of the Board – Director Independence", "Related Person Transactions", and "Appendix A: Categorical Standards for Determination of Director Independence" in the Proxy Statement.

Item 14 - Principal Accountant Fees and Services

The information required by this item is furnished by incorporation by reference to the information under the heading "Audit Matters – Fees Paid to the Independent Registered Public Accounting Firm" in the Proxy Statement.

Part IV

Item 15 – Exhibits and Financial Statement Schedules

a) 1. Financial Statements

See the following items and page numbers appearing in Item 8 of this Annual Report:

	Page No.
Reports of Independent Registered Public Accounting Firm	41
Consolidated Statements of Earnings for each of the three fiscal years in the period ended February 1, 2019	43
Consolidated Statements of Comprehensive Income for each of the three fiscal years in the period ended February 1, 2019	43
Consolidated Balance Sheets at February 1, 2019 and February 2, 2018	44
Consolidated Statements of Shareholders' Equity for each of the three fiscal years in the period ended February 1, 2019	45
Consolidated Statements of Cash Flows for each of the three fiscal years in the period ended February 1, 2019	46
Notes to Consolidated Financial Statements for each of the three fiscal years in the period ended February 1, 2019	47

2. Financial Statement Schedule

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In millions)	Balance at beginning of period	Charges to costs and expenses	Deductions	Balance at end of period
February 1, 2019:				
Reserve for loss on obsolete inventory	$ 77	$ 1 [1]	$ —	$ 78
Reserve for inventory shrinkage	212	478	(468) [2]	222
Reserve for sales returns	71	123 [3]	—	194
Deferred tax valuation allowance	475	94 [4]	—	569
Self-insurance liabilities	890	1,530	(1,467) [5]	953
Reserve for exit activities	60	384	(83) [6]	361
February 2, 2018:				
Reserve for loss on obsolete inventory	$ 59	$ 18 [1]	$ —	$ 77
Reserve for inventory shrinkage	189	456	(433) [2]	212
Reserve for sales returns	71	—	—	71
Deferred tax valuation allowance	578	—	(103) [4]	475
Self-insurance liabilities	831	1,547	(1,488) [5]	890
Reserve for exit activities	66	19	(25) [6]	60
February 3, 2017:				
Reserve for loss on obsolete inventory	$ 46	$ 13 [1]	$ —	$ 59
Reserve for inventory shrinkage	171	397	(379) [2]	189
Reserve for sales returns	66	5 [3]	—	71
Deferred tax valuation allowance	447	131 [4]	—	578
Self-insurance liabilities	883	1,418	(1,470) [5]	831
Reserve for exit activities	67	47	(48) [6]	66

1 *Represents the net increase/(decrease) in the required reserve based on the Company's evaluation of obsolete inventory.*

2 *Represents the actual inventory shrinkage experienced at the time of physical inventories.*

3 *Represents the net increase in the required reserve based on the Company's evaluation of anticipated merchandise returns. The Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), effective February 3, 2018. Under ASU 2014-09, the sales returns reserve is presented on a gross basis, with a separate asset and liability in the consolidated balance sheet. Reporting periods prior to the adoption of ASU 2014-09 reflect the sales returns reserve on a net basis. For fiscal year 2018, the net increase in the reserve is primarily due to the change from net presentation to gross presentation related to the adoption of the revenue recognition standard, as well as changes in the Company's evaluation of anticipated merchandise returns.*

4 *Represents an increase/(decrease) in the required reserve based on the Company's evaluation of deferred tax assets.*

5 *Represents claim payments for self-insured claims.*

6 *Represents lease payments, net of sublease income.*

3. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
2.1	Arrangement Agreement, dated as of February 2, 2016, among Lowe's Companies, Inc., Lowe's Companies Canada, ULC and RONA inc. (1)	10-K	001-07898	2.1	March 29, 2016
3.1	Restated Charter of Lowe's Companies, Inc.	10-Q	001-07898	3.1	September 1, 2009
3.2	Bylaws of Lowe's Companies, Inc., as amended and restated January 25, 2019.	8-K	001-07898	3.1	January 28, 2019
4.1	Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee.	8-K	001-07898	4.1	December 15, 1995
4.2	Form of Lowe's Companies, Inc.'s 6 7/8% Debentures due February 15, 2028.	8-K	001-07898	4.2	February 20, 1998
4.3	First Supplemental Indenture, dated as of February 23, 1999, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee.	10-K	001-07898	10.13	April 19, 1999
4.4	Form of Lowe's Companies, Inc.'s 6 1/2% Debentures due March 15, 2029.	10-K	001-07898	10.19	April 19, 1999
4.5	Third Supplemental Indenture, dated as of October 6, 2005, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as an exhibit thereto a form of Lowe's Companies, Inc.'s 5.5% Notes maturing in October 2035.	10-K	001-07898	4.5	April 3, 2007

4.6	Fourth Supplemental Indenture, dated as of October 10, 2006, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as an exhibit thereto a form of Lowe's Companies, Inc.'s 5.80% Notes maturing in October 2036.	S-3 (POSASR)	333-137750	4.5	October 10, 2006

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
4.7	Fifth Supplemental Indenture, dated as of September 11, 2007, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 6.10% Notes maturing in September 2017 and a form of Lowe's Companies, Inc.'s 6.65% Notes maturing in September 2037.	8-K	001-07898	4.1	September 11, 2007
4.8	Sixth Supplemental Indenture, dated as of April 15, 2010, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 4.625% Notes maturing in April 2020 and a form of Lowe's Companies, Inc.'s 5.800% Notes maturing in April 2040.	8-K	001-07898	4.1	April 15, 2010
4.9	Seventh Supplemental Indenture, dated as of November 22, 2010, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as an exhibit thereto a form of Lowe's Companies, Inc.'s 3.750% Notes maturing in April 2021.	8-K	001-07898	4.1	November 22, 2010
4.10	Eighth Supplemental Indenture, dated as of November 23, 2011, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 3.800% Notes maturing in November 2021 and a form of Lowe's Companies, Inc.'s	8-K	001-07898	4.1	November 23, 2011

	5.125% Notes maturing in November 2041.				
4.11	Ninth Supplemental Indenture, dated as of April 23, 2012, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 1.625% Notes maturing in April 2017, a form of Lowe's Companies, Inc.'s 3.120% Notes maturing in April 2022 and a form of Lowe's Companies, Inc.'s 4.650% Notes maturing in April 2042.	8-K	001-07898	4.1	April 23, 2012

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
4.12	Tenth Supplemental Indenture, dated as of September 11, 2013, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 3.875% Notes maturing in September 2023 and a form of Lowe's Companies, Inc.'s 5.000% Notes maturing in September 2043.	8-K	001-07898	4.1	September 11, 2013
4.13	Eleventh Supplemental Indenture, dated as of September 10, 2014, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s Floating Rate Notes maturing in September 2019, a form of Lowe's Companies, Inc.'s 3.125% Notes maturing in September 2024 and a form of Lowe's Companies, Inc.'s 4.250% Notes maturing in September 2044.	8-K	001-07898	4.1	September 10, 2014
4.14	Twelfth Supplemental Indenture, dated as of September 16, 2015, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s Floating Rate Notes maturing in September 2018, a form of Lowe's Companies, Inc.'s 3.375% Notes maturing in September 2025 and a form of Lowe's Companies, Inc.'s 4.375% Notes maturing in September 2045.	8-K	001-07898	4.1	September 16, 2015
4.15	Thirteenth Supplemental Indenture, dated as of April 20,	8-K	001-07898	4.1	April 20, 2016

	2016, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s Floating Rate Notes maturing in April 2019, a form of Lowe's Companies, Inc.'s 1.15% Notes maturing in April 2019, a form of Lowe's Companies, Inc.'s 2.50% Notes maturing in April 2026 and a form of Lowe's Companies, Inc.'s 3.70% Notes maturing in April 2046.				
4.16	Fourteenth Supplemental Indenture, dated as of May 3, 2017, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of 3.100% Notes due May 3, 2027 and a form of 4.050% Notes due May 3, 2047.	8-K	001-07898	4.1	May 3, 2017

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
4.17	Second Amended and Restated Credit Agreement, dated as of September 10, 2018, by and among Lowe's Companies, Inc., Bank of America, N.A., as administrative agent and a letter of credit issuer, U.S. Bank National Association, as syndication agent and a letter of credit issuer, Citibank, N.A., Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A. and Wells Fargo Bank, National Association, as co-documentation agents, and the other lenders party thereto.	8-K	001-07898	10.1	September 12, 2018
4.18	364-Day Credit Agreement, dated as of September 10, 2018, by and among Lowe's Companies, Inc., Bank of America, N.A., as administrative agent, U.S. Bank National Association, as syndication agent Citibank, N.A., Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A. and Wells Fargo Bank, National Association, as co-documentation agents, and the other lenders party thereto.	8-K	001-07898	10.2	September 12, 2018
10.1	Lowe's Companies, Inc. Directors' Deferred Compensation Plan, effective July 1, 1994.*	10-Q	001-07898	10.1	December 2, 2008
10.2	Amendment No. 1 to the Lowe's Companies, Inc. Directors' Deferred Compensation Plan, effective January 31, 2009.*	10-K	001-07898	10.21	March 30, 2010
10.3	Lowe's Companies Employee Stock Purchase Plan – Stock Options for Everyone, as amended and restated effective June 1, 2012.*	DEF 14A	001-07898	Appendix B	April 13, 2012
10.4	Lowe's Companies, Inc. 1997 Incentive Plan.*	S-8	333-34631	4.2	August 29, 1997
10.5	Amendments to the Lowe's Companies, Inc. 1997 Incentive Plan, dated January 25, 1998.*	10-K	001-07898	10.16	April 19, 1999

10.6	Amendments to the Lowe's Companies, Inc. 1997 Incentive Plan, dated September 17, 1998 (also encompassing as Exhibit I thereto the Lowe's Companies, Inc. Deferred Compensation Program).*	10-K	001-07898	10.17	April 19, 1999
10.7	Amendment No. 1 to the Lowe's Companies, Inc. Deferred Compensation Program, effective as of January 1, 2005.*	10-K	001-07898	10.25	March 29, 2011
10.8	Amendment No. 2 to the Lowe's Companies, Inc. Deferred Compensation Program, effective as of December 31, 2008.*	10-K	001-07898	10.22	March 31, 2009

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
10.9	Lowe's Companies Benefit Restoration Plan, as amended and restated as of January 1, 2008.*	10-Q	001-07898	10.2	December 12, 2007
10.10	Amendment No. 1 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.10	March 29, 2011
10.11	Amendment No. 2 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.11	March 29, 2011
10.12	Amendment No. 3 to the Lowe's Companies Benefit Restoration Plan.*	10-Q	001-07898	10.1	December 1, 2011
10.13	Amendment No. 4 to the Lowe's Companies Benefit Restoration Plan.*	10-Q	001-07898	10.1	September 4, 2012
10.14	Amendment No. 5 to the Lowe's Companies Benefit Restoration Plan.*	10-Q	001-07898	10.1	December 3, 2013
10.15	Amendment No. 6 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.1	March 31, 2015
10.16	Amendment No. 7 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.16	April 4, 2017
10.17	Form of Lowe's Companies, Inc. Management Continuity Agreement for Tier I Senior Officers used for agreements entered into on or after June 1, 2012.*	10-Q	001-07898	10.2	September 4, 2012
10.18	Form of Lowe's Companies, Inc. Management Continuity Agreement for Tier II Senior Officers.*	10-Q	001-07898	10.2	September 3, 2008
10.19	Lowe's Companies Cash Deferral Plan.*	10-Q	001-07898	10.1	June 4, 2004
10.20	Amendment No. 1 to the Lowe's Companies Cash Deferral Plan.*	10-Q	001-07898	10.1	December 12, 2007

10.21	Amendment No. 2 to the Lowe's Companies Cash Deferral Plan.*	10-Q	001-07898	10.2	December 1, 2010
10.22	Lowe's Companies, Inc. Amended and Restated Directors' Stock Option and Deferred Stock Unit Plan.*	8-K	001-07898	10.1	June 3, 2005
10.23	Form of Lowe's Companies, Inc. Deferred Stock Unit Agreement for Directors.*	8-K	001-07898	10.2	June 3, 2005
10.24	Form of Lowe's Companies, Inc. Performance Share Unit Award Agreement.*	10-Q	001-07898	10.1	May 31, 2011

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
10.25	Form of Lowe's Companies, Inc. Restricted Stock Award Agreement.*	10-K	001-07898	10.27	April 4, 2017
10.26	Lowe's Companies, Inc. 2006 Long Term Incentive Plan, as amended and restated effective as of February 4, 2017.*	10-K	001-07898	10.28	April 4, 2017
10.27	Lowe's Companies, Inc. 2016 Annual Incentive Plan, effective as of February 1, 2016.*	DEF 14A	001-07898	Appendix C	April 11, 2016
10.28	Form of Lowe's Companies, Inc. 2006 Long Term Incentive Plan Non-Qualified Stock Option Agreement.*	10-K	001-07898	10.24	March 29, 2011
10.29	Amendment No. 1, dated as of May 4, 2017, to the Amended and Restated Credit Agreement, dated as of November 23, 2016, by and among Lowe's Companies, Inc., Bank of America, N.A., as administrative agent, swing line lender and a letter of credit issuer, Wells Fargo Bank, National Association, as syndication agent and a letter of credit issuer, Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., SunTrust Bank and U.S. Bank National Association, as co-documentation agents, and the other lenders party thereto.	10-Q	001-07898	10.1	June 6, 2017
10.30	Offer Letter between Marvin R. Ellison and Lowe's Companies, Inc. entered into on May 21, 2018.*	8-K	001-07898	10.1	May 22, 2018
10.31	Offer Letter between Lowe's Companies, Inc. and Joseph M. McFarland III entered into on July 18, 2018.*	10-Q	001-07898	10.2	September 4, 2018
10.32	Offer Letter between Lowe's Companies, Inc. and David M. Denton entered into on August 20, 2018.*	10-Q	001-07898	10.3	September 4, 2018
10.33		10-Q	001-07898	10.4	September 4, 2018

	Form of Lowe's Companies, Inc. Restricted Stock Award Agreement.*				
10.34	Form of Lowe's Companies, Inc. Performance Share Unit Award Agreement.*	10-Q	001-07898	10.5	September 4, 2018
10.35	Form of Lowe's Companies, Inc. Non-Qualified Stock Option Agreement.*	10-Q	001-07898	10.6	September 4, 2018
10.36	Form of Lowe's Companies, Inc. Change in Control Agreement for Tier I Senior Officers.*	10-Q	001-07898	10.7	September 4, 2018
10.37	Form of Lowe's Companies, Inc. Change in Control Agreement for Tier II Senior Officers.*	10-Q	001-07898	10.8	September 4, 2018

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
10.38	Lowe's Companies, Inc. Severance Plan for Senior Officers effective August 16, 2018.*	10-Q	001-07898	10.9	September 4, 2018
10.39	Retirement Agreement between Lowe's Companies, Inc. and Robert A. Niblock entered into on June 18, 2018.*	10-Q	001-07898	10.10	September 4, 2018
10.40	Retention Agreement between Lowe's Companies, Inc. and Michael P. McDermott entered into on July 9, 2018.*	10-Q	001-07898	10.11	September 4, 2018
10.41	Retirement Agreement between Lowe's Companies, Inc. and Marshall A. Croom entered into on September 27, 2018.*	10-Q	001-07898	10.5	December 6, 2018
10.42	Form of Lowe's Companies, Inc. Director Indemnification Agreement.*	10-Q	001-07898	10.6	December 6, 2018
10.43	Form of Lowe's Companies, Inc. Officer Indemnification Agreement.*‡				
10.44	Release and Separation Agreement between Lowe's Companies, Inc. and Richard D. Maltsbarger entered into on July 20, 2018*‡				
18.1	Preferability Letter of Deloitte & Touche LLP.‡				
21.1	List of Subsidiaries.‡				
23.1	Consent of Deloitte & Touche LLP.‡				
24.1	Power of Attorney (included on the Signatures page of this Annual Report on Form 10-K).‡				

31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
101.INS	XBRL Instance Document.‡				
101.SCH	XBRL Taxonomy Extension Schema Document.‡				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.‡				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.‡				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.‡				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.‡				

(1) Schedules have been omitted pursuant to Item 601 (b)(2) of Regulation S-K. Lowe's Companies, Inc. agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule upon request.

* Indicates a management contract or compensatory plan or arrangement.

‡ Filed herewith.

† Furnished herewith.

Item 16 – Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	LOWE’S COMPANIES, INC.
	(Registrant)
April 1, 2019	By: /s/ Marvin R. Ellison
Date	Marvin R. Ellison President and Chief Executive Officer
April 1, 2019	By: /s/ David M. Denton
Date	David M. Denton Executive Vice President, Chief Financial Officer
April 1, 2019	By: /s/ Matthew V. Hollifield
Date	Matthew V. Hollifield Senior Vice President and Chief Accounting Officer

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Each of the directors of the registrant whose signature appears below hereby appoints David M. Denton, Matthew V. Hollifield and Ross W. McCanless, and each of them severally, as his or her attorney-in-fact to sign in his or her name and behalf, in any and all capacities stated below, and to file with the Securities and Exchange Commission any and all amendments to this report, making such changes in this report as appropriate, and generally to do all such things on their behalf in their capacities as directors and/or officers to enable the registrant to comply with the provisions of the Securities Exchange Act of 1934, and all requirements of the Securities and Exchange Commission.

/s/ Marvin R. Ellison	President, Chief Executive Officer and Director	April 1, 2019
Marvin R. Ellison		Date
/s/ Raul Alvarez	Director	April 1, 2019
Raul Alvarez		Date
/s/ David H. Batchelder	Director	April 1, 2019
David H. Batchelder		Date
/s/ Angela F. Braly	Director	April 1, 2019
Angela F. Braly		Date
/s/ Sandra B. Cochran	Director	April 1, 2019
Sandra B. Cochran		Date
/s/ Laurie Z. Douglas	Director	April 1, 2019
Laurie Z. Douglas		Date
/s/ Richard W. Dreiling	Chairman of the Board	April 1, 2019
Richard W. Dreiling		Date
/s/ Marshall O. Larsen	Director	April 1, 2019
Marshall O. Larsen		Date
/s/ James H. Morgan	Director	April 1, 2019
James H. Morgan		Date
/s/ Brian C. Rogers	Director	April 1, 2019
Brian C. Rogers		Date
/s/ Bertram L. Scott	Director	April 1, 2019
Bertram L. Scott		Date
/s/ Lisa W. Wardell	Director	April 1, 2019
Lisa W. Wardell		Date
/s/ Eric C. Wiseman	Director	April 1, 2019
Eric C. Wiseman		Date

10-K 1 form10k_02022018.htm FORM 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended February 2, 2018

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________ to _________

Commission file number 1-7898

lowesgraphicimage01.jpg

LOWE'S COMPANIES, INC.

(Exact name of registrant as specified in its charter)

NORTH CAROLINA	**56-0578072**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1000 Lowe's Blvd., Mooresville, NC	**28117**
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	**704-758-1000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.50 Par Value	**New York Stock Exchange (NYSE)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

As of August 4, 2017, the last business day of the Company's most recent second quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $65.6 billion based on the closing sale price as reported on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT 3/29/2018
Common Stock, $0.50 par value	825,766,281

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Portions of the Proxy Statement for Lowe's 2018 Annual Meeting of Shareholders	Part III

LOWE'S COMPANIES, INC.
- TABLE OF CONTENTS -

		Page No.
PART I		
Item 1.	Business	4
Item 1A.	Risk Factors	9
Item 1B.	Unresolved Staff Comments	15
Item 2.	Properties	15
Item 3.	Legal Proceedings	15
Item 4.	Mine Safety Disclosures	15
	Executive Officers of the Registrant	16
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	17
Item 6.	Selected Financial Data	18
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 8.	Financial Statements and Supplementary Data	37
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	70
Item 9A.	Controls and Procedures	70
Item 9B.	Other Information	71
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	72
Item 11.	Executive Compensation	72
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	72
Item 13.	Certain Relationships and Related Transactions, and Director Independence	72
Item 14.	Principal Accountant Fees and Services	72
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	73
Item 16.	Form 10-K Summary	81
	Signatures	82

Part I

Item 1 - Business

General Information

Lowe's Companies, Inc. and subsidiaries (the Company or Lowe's) is a Fortune® 50 company and the world's second largest home improvement retailer. As of February 2, 2018, Lowe's operated 2,152 home improvement and hardware stores, representing approximately 215 million square feet of retail selling space. These operations were comprised of 1,839 stores located across 50 U.S. states, including 99 Orchard Supply Hardware (Orchard) stores, as well as 303 stores in Canada, and 10 stores in Mexico.

The Canadian stores include RONA inc. (RONA) which was acquired by Lowe's in 2016. RONA operates 240 stores in Canada as of February 2, 2018, as well as services approximately 242 dealer-owned stores. The RONA stores represent various complementary store formats operating under various banners.

Lowe's was incorporated in North Carolina in 1952 and has been publicly held since 1961. The Company's common stock is listed on the New York Stock Exchange - ticker symbol "LOW".

See Item 6, "Selected Financial Data", of this Annual Report on Form 10-K (Annual Report), for historical revenues, profits and identifiable assets. For additional information about the Company's performance and financial condition, see also Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this Annual Report. Financial information about our geographic areas is included in Note 1, "Summary of Significant Accounting Policies", of the Notes to the Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data", of this Annual Report.

Customers, Market and Competition

Our Customers

We serve homeowners, renters, and professional customers (Pro customers). Individual homeowners and renters complete a wide array of projects and vary along the spectrum of do-it-yourself (DIY) and do-it-for-me (DIFM). The Pro customer consists of two broad categories: construction trades; and maintenance, repair & operations.

Our Market

The U.S. market remains our predominant market, accounting for approximately 92% of consolidated sales for the fiscal year ended February 2, 2018. We are among the many businesses, including home centers, paint stores, hardware stores, lumber yards and garden centers, whose revenues are included in the Building Material and Garden Equipment and Supplies Dealers Subsector (444) of the Retail Trade Sector of the North American Industry Classification System (NAICS), the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

NAICS 444 represents roughly half of what we consider the total U.S. market for our products and services. The broader market in which Lowe's operates includes home-related sales through a variety of companies beyond those in NAICS 444. These consist of other companies in the retail sector, including mass retailers, home goods specialty stores, and online retailers, as well as wholesalers that provide home-related products and services to homeowners, businesses, and the government.

There are many variables that affect consumer demand for the home improvement products and services Lowe's offers. Key indicators we monitor include real disposable personal income, employment, home prices, and housing turnover. We also monitor demographic and societal trends that shape home improvement industry growth.

Our Competition

The home improvement industry includes a broad competitive landscape. We compete with other national and international home improvement warehouse chains and lumberyards in most of our trade areas. We also compete with traditional hardware, plumbing, electrical, home supply retailers, and maintenance and repair organizations. In addition, we compete with general merchandise retailers, warehouse clubs, and online and other specialty retailers as well as service providers that install home improvement products. Location of stores continues to be a key competitive factor in our industry; however, the increasing use of technology and the simplicity of online shopping also underscore the importance of omni-channel capabilities as a competitive factor. We differentiate ourselves from our competitors by providing better customer experiences while delivering superior value in products and service. See further discussion of competition in Item 1A, “Risk Factors”, of this Annual Report.

Products and Services

Our Products

Product Selection
To meet customers’ varying home improvement needs, we offer a complete line of products for maintenance, repair, remodeling, and decorating. We offer home improvement products in the following categories: Lumber & Building Materials, Tools & Hardware, Appliances, Fashion Fixtures, Rough Plumbing & Electrical, Seasonal & Outdoor Living, Lawn & Garden, Paint, Millwork, Flooring, and Kitchens. A typical Lowe’s-branded home improvement store stocks approximately 39,000 items, with hundreds of thousands of additional items available through our Special Order Sales system and various online selling channels. See Note 16 of the Notes to Consolidated Financial Statements included in Item 8, “Financial Statements and Supplementary Data”, of this Annual Report for historical revenues by product category for each of the last three fiscal years.

We are committed to offering a wide selection of national brand-name merchandise complemented by our selection of private brands. In addition, we are dedicated to ensuring the products we sell are sourced in a socially responsible, efficient, and cost effective manner.

National Brand-Name Merchandise
In many product categories, customers look for a familiar and trusted national brand to instill confidence in their purchase. Lowe’s home improvement stores carry a wide selection of national brand-name merchandise such as Whirlpool®, GE®, LG®, and Samsung® appliances, Stainmaster® carpets, Sherwin-Williams® paints and stains, Valspar® paints and stains, Pella® windows and doors, Pergo® hardwood flooring, Dewalt® power tools, Hitachi® pneumatic tools, Weber® grills, Char-Broil® grills, Owens Corning® insulation and roofing, GAF® roofing, James Hardie® fiber cement siding, Marshalltown® masonry tools and concrete, Husqvarna® outdoor power equipment, John Deere® riding lawn mowers, Werner® ladders, Quoizel® lighting, Nest® products and many more. In 2017, we added brand name merchandise such as A. O. Smith® water heaters, SharkBite® plumbing products, and Norton® abrasives to our portfolio. Our merchandise selection provides the retail and Pro customer a one-stop shop for a wide variety of national brand-name merchandise needed to complete home improvement, repair, maintenance, or construction projects.

Private Brands
Private brands are an important element of our overall portfolio, helping to provide significant value and coordinated style across core categories. We sell private brands in several of our product categories. Some of Lowe’s most important private brands include Kobalt® tools, allen+roth® home décor products, Blue Hawk® home improvement products, Project Source® basic value products, Portfolio® lighting products, Garden Treasures® lawn and patio products, Utilitech® electrical and utility products, Reliabilt® doors and windows, Aquasource® faucets, sinks and toilets, Harbor Breeze® ceiling fans, Top Choice® lumber products and Iris® home automation and management products.

Supply Chain
We source our products from vendors worldwide and believe that alternative and competitive suppliers are available for virtually all of our products. Whenever possible, we purchase directly from manufacturers to provide savings for customers and improve our gross margin.

To efficiently move product from our vendors to our stores and maintain in-stock levels, we own and operate distribution facilities that enable products to be received from vendors, stored and picked, or cross-docked, and then shipped to our retail locations or directly to customers. These facilities include 15 highly-automated Regional Distribution Centers (RDC) in the United States. On average, each domestic RDC serves approximately 118 stores. We also own and operate eight distribution centers, including four lumber yards, to serve our Canadian market, and we lease and operate a distribution facility to serve our Orchard stores. Additionally, we have a service agreement with a third-party logistics provider to manage a distribution facility to serve our stores in Mexico.

In addition to the RDCs, we also operate coastal holding facilities, transload facilities, appliance distribution centers, and flatbed distribution centers. The flatbed distribution centers distribute merchandise that requires special handling due to size or type of packaging such as lumber, boards, panel products, pipe, siding, ladders, and building materials. Collectively, our facilities enable our import and e-commerce, as well as parcel post eligible products, to get to their destination as efficiently as possible. Most parcel post items can be ordered by a customer and delivered within two business days at standard shipping rates.

In fiscal 2017, on average, approximately 80% of the total dollar amount of stock merchandise we purchased was shipped through our distribution network, while the remaining portion was shipped directly to our stores from vendors.

Our Services

Installed Sales
We offer installation services through independent contractors in many of our product categories, with Appliances, Flooring, Kitchens, Lumber & Building Materials, and Millwork accounting for the majority of installed sales. Our Installed Sales model, which separates selling and project administration tasks, allows our sales associates to focus on project selling, while project managers ensure that the details related to installing the products are efficiently executed. Installed Sales, which includes both product and labor, accounted for approximately 7% of total sales in fiscal 2017.

Extended Protection Plans and Repair Services
We offer extended protection plans for various products within the Appliances, Kitchens, Fashion Fixtures, Millwork, Rough Plumbing & Electrical, Seasonal & Outdoor Living, and Tools & Hardware categories. These protection plans provide customers with product protection that enhances or extends coverage previously offered by the manufacturer's warranty, and provides additional customer friendly benefits that go beyond the scope of a manufacturer's warranty. The protection plans provide in-warranty and out-of-warranty repair services for major appliances, outdoor power equipment, tools, grills, fireplaces, air conditioners, water heaters, and other eligible products through our stores or in the home through the Lowe's Authorized Service Repair Network. We offer replacement plans for products in most of these categories when priced below $300, or otherwise specified category specific price points. Our contact center takes customers' calls, assesses the problems, and facilitates resolutions, making after-sales service easier for our customers by managing the entire process.

Selling Channels

We are continuing to enhance our omni-channel capabilities, which allows our customers to move from channel to channel with simple and seamless transitions even within the same transaction. For example, for many projects, more than half of our customers conduct research online before making an in-store purchase. For purchases made on Lowes.com, customers may pick up their purchase in-store, have their purchase delivered from a store, or have their purchase parcel shipped. In addition, flexible fulfillment options are available for in-store purchases and those made through the contact center. Regardless of the channels through which customers choose to engage with us, we strive to provide them with a seamless experience across channels and an endless aisle of products, enabled by our flexible fulfillment capabilities. Our ability to sell products in-store, online, on-site, or through our contact centers speaks to our ability to leverage our existing infrastructure with the omni-channel capabilities we continue to introduce.

In-Store
Our 1,813 Lowe's-branded home improvement stores, inclusive of 1,740 in the U.S., 63 in Canada and 10 in Mexico, are generally open seven days per week and average approximately 112,000 square feet of retail selling space, plus approximately 32,000 square feet of outdoor garden center selling space. The 240 RONA stores operate under various complementary store formats that address target customers and occasions. In addition, we operate 99 Orchard hardware stores located throughout California, Oregon, and Florida that also serve home improvement customers and average approximately 36,000 square feet of retail selling space. Our home improvement stores in the U.S. and Canada offer similar products and services, with certain variations based on local market factors; however, Orchard stores are primarily focused on paint, repair, and backyard products. We continue to develop and implement tools to make our sales associates more efficient and to integrate our order management and fulfillment processes. Our home improvement stores have Wi-Fi capabilities that provide customers with internet access, making information available quickly to further simplify the shopping experience.

Online
Through our websites and mobile applications, we seek to empower consumers by providing a 24/7 shopping experience, online product information, customer ratings and reviews, online buying guides and how-to videos and other information. These tools help consumers make more informed purchasing decisions and give them increased

confidence to undertake home improvement projects. We enable customers to choose from a variety of fulfillment options, including buying online and picking up in-store as well as delivery or parcel shipment to their homes.

In addition, our LowesForPros.com online tool allows for easy online ordering for our Pro customers, and their choice of in-store pick-up or delivery, saving them time and money.

On-Site
We have on-site specialists available for retail and Pro customers to assist them in selecting products and services for their projects. Our Account Executives ProServices meet with Pro customers at their place of business or on a job site and leverage stores within the area to ensure we meet customer needs for products and resources. Our Project Specialist Exteriors (PSE) program is available in all U.S. Lowe's home improvement stores to discuss exterior projects such as roofing, siding, fencing, and windows, whose characteristics lend themselves to an in-home consultative sales approach. In addition, our Project Specialist Interiors (PSI) program is also available in all U.S. Lowe's home improvement stores to provide similar consultative services on interior projects such as kitchens and bathrooms.

Contact Centers
Lowe's operates three contact centers which are located in Wilkesboro, NC, Albuquerque, NM, and Indianapolis, IN. These contact centers help Lowe's enable an omni-channel customer experience by providing the ability to tender sales, coordinate deliveries, manage after-sale installations, facilitate repair services for Appliances and Outdoor Power Equipment, and answer general customer questions via phone, mail, e-mail, live chat, and social media.

Employees

As of February 2, 2018, we employed approximately 200,000 full-time and 110,000 part-time employees. Our employees in Mexico, and certain employees in Canada, are subject to collective bargaining agreements. No other employees are subject to collective bargaining agreements. Management considers its relations with employees to be good.

Seasonality and Working Capital

The retail business in general is subject to seasonal influences, and our business is, to some extent, seasonal. Historically, we have realized the highest volume of sales during our second fiscal quarter (May, June and July) and the lowest volume of sales during our fourth fiscal quarter (November, December and January). Accordingly, our working capital requirements have historically been greater during our fourth fiscal quarter as we build inventory in anticipation of the spring selling season and as we experience lower fourth fiscal quarter sales volumes. We fund our working capital requirements primarily through cash flows generated from operations, but also with short-term borrowings, as needed. For more detailed information, see the Financial Condition, Liquidity and Capital Resources section in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this Annual Report.

Intellectual Property

The name "Lowe's" is a registered service mark of one of our wholly-owned subsidiaries. We consider this mark and the accompanying name recognition to be valuable to our business. This subsidiary and other wholly owned subsidiaries own and maintain various additional registered and unregistered trademarks, trade names and service marks, including but not limited to retail names "RONA", "Reno Depot", and "Orchard Supply Hardware", online retail name "The Mine", and private brand product names "Kobalt" and "allen+roth". These subsidiaries also maintain various Internet domain names that are important to our business, and we also own registered and unregistered copyrights. In addition, we maintain patent portfolios related to some of our products and services and seek to patent or otherwise protect certain innovations that we incorporate into our products, services, or business operations.

Environmental Stewardship

As a purpose-driven, principles-based company, Lowe's is committed to leveraging our time, talents and resources to growing in a way that makes our world better, makes our communities stronger, and makes people want to connect with us as their partner in home improvement.

In 2017, our Sustainability & Product Stewardship Council, led by senior executives, enhanced our Corporate Social Responsibility Strategy. Our strategy focuses on responsible sourcing, safer and more eco-friendly product offerings, maintaining a diverse, healthy, engaged and skilled workforce, supporting our local communities and operating ethically and responsibly.

We want our customers to feel good about the high-quality products they choose at Lowe's. Our products are selected very carefully, beginning with our sourcing decisions. We care about how our thousands of products are created and about the people who make them. Through collaboration and established management systems, we monitor our suppliers' practices to ensure we are securing high quality products from suppliers who protect worker rights and the environment. We are also bringing innovative, efficient and eco-certified products into our portfolio-products that provide health and environmental benefits-to meet the needs of an increasing set of customers who prefer these types of products. In 2017, we crafted vision statements and began identifying 2025 goals to guide our future decisions.

We are committed to preserving our shared home, Earth, through sustainable practices and conservation at a local level. Our retail stores require significant amounts of electricity to operate lighting, HVAC and other energy-consuming items, while the transportation of our products from suppliers, to distribution centers to stores requires fuel. We are actively working to manage and reduce energy and fuel usage. At a local level, store waste can add up-cardboard, broken appliances, wood pallets, and more. We recycle these through national and regional partners and provide in-store recycling centers for our customers to bring in certain items. Footprint reduction activities result in cost savings, healthier communities and a better world.

Each year, Lowe's participates in the Carbon Disclosure Project to track our carbon footprint. In 2017, Lowe's externally verified its greenhouse gas emissions data collection and analysis to validate our findings and increase confidence in our reporting. In 2017, 100 retail locations upgraded to interior light-emitting diode (LED) lighting. In 2017, we also replaced 100 aging HVAC units with high-efficiency units and added Variable Fan Drive systems in over 300 stores. During the execution of the HVAC initiative, the facilities team was able to recycle over four million pounds of materials, preventing valuable resources from going to landfill.

Lowe's is committed to promoting sustainable practices in the transportation industry. We collaborate with the Environmental Protection Agency's SmartWay program to reduce transportation emissions by creating incentives for freight contractors to improve efficiency, and are proud to be the only retailer to achieve the Environmental Protection Agency SmartWay Excellence Award nine years in a row.

Managing our water resources is essential in regions experiencing drought conditions. In 2017, we completed our rollout of HydroPoint irrigation technology that combines real-time weather data with site-specific information to reduce water consumption and save on utility costs. The HydroPoint systems are now deployed to approximately 925 locations, covering all stores with operable irrigation systems.

For more information about Lowe's environmental efforts, please visit Lowes.com/SocialResponsibility.

Investing in Our Communities

Lowe's has a long and proud history of supporting local communities through volunteerism as well as public education and community improvement projects, beginning with the creation of the Lowe's Charitable and Educational Foundation in 1957. In 2017, Lowe's employees contributed approximately 200,000 hours to Lowe's Heroes volunteer projects, with 100% participation from Lowe's U.S. stores. Lowe's and the Lowe's Charitable and Educational Foundation donated approximately $39 million to schools and community organizations in the United States, Canada, and Mexico, including but not limited to the following actions discussed below.

Our commitment to improving educational opportunities is best exemplified by our signature education grant program, Lowe's Toolbox for Education®, and 2017 marked the program's 12-year anniversary. In 2017, Lowe's Toolbox for Education® provided approximately $6.5 million in grants and since inception has provided funding improvements at nearly 13,000 schools, benefiting more than seven million children.

Each year, we work with national nonprofit partners to strengthen and stabilize neighborhoods in the communities we serve. In 2017, Lowe's contributed $7 million and teamed with Habitat for Humanity and Rebuilding Together to provide housing solutions in partnership with families across the country. We also continued to build on our longstanding partnerships with the Boys & Girls Clubs of America, SkillsUSA, The Nature Conservancy, and Keep America Beautiful to improve communities and build tomorrow's leaders.

Lowe's is also committed to helping residents of the communities we serve by being there when we're needed most - when a natural disaster threatens and in the recovery that follows. In 2017, Lowe's contributed more than $2.5 million and mobilized hundreds of employee volunteers to help families recover from disasters across the United States. We also supported our employees affected by the many natural disasters this year by doubling the company match of the Employee Relief Fund after Harvey made landfall. Together, Lowe’s and our generous employees raised over $3.1 million this year which has helped over 2,500 employees in need.

For more information on Lowe's partnerships and latest community improvement projects, visit Lowes.com/SocialResponsibility.

Available Information

Our Annual Report, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge through our internet website at www.Lowes.com/investor, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The public may also read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A - Risk Factors

We have developed a risk management process using periodic surveys, external research, planning processes, risk mapping, analytics and other tools to identify and evaluate the operational, financial, environmental, reputational, strategic and other risks that could adversely affect our business. For more information about our risk management framework, which is administered by our Chief Financial Officer and includes developing risk mitigation controls and procedures for the material risks we identify, see the description included in the definitive Proxy Statement for our 2018 annual meeting of shareholders (as defined in Item 10 of Part III of this Annual Report) under "Information About the Board of Directors and Committees of the Board - Board Meetings, Committees of the Board and Board Leadership Structure - Board's Role in the Risk Management Process."

We describe below certain risks that could adversely affect our results of operations, financial condition, business reputation or business prospects. These risk factors may change from time to time and may be amended, supplemented or superseded by updates to the risk factors contained in our future periodic reports on Form 10-K, Form 10-Q and reports on other forms we file with the Securities and Exchange Commission. All forward-looking statements about our future results of operations or other matters made by us in this Annual Report, in our Annual Report to Lowe's Shareholders and in our subsequently filed reports to the Securities and Exchange Commission, as well as in our press releases and other public communications, are qualified by the risks described below.

You should read these risk factors in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and our consolidated financial statements and related notes in Item 8. There also may be other factors that we cannot anticipate or that are not described in this Annual Report generally because we do not currently perceive them to be material. Those factors could cause results to differ materially from our expectations.

We may be unable to adapt our business concept in a rapidly evolving retail environment to address the changing shopping habits, demands and demographics of our customers, or realize the intended benefits of organizational change initiatives.
The home improvement retail environment, like the retail environment generally, is rapidly evolving, and adapting our business concept to respond to our customers' changing shopping habits and demands and their changing demographics is critical to our future success. Our success is dependent on our ability to identify and respond to the economic, social, style and other trends that affect demographic and consumer preferences in a variety of our merchandise categories and service offerings. Customers' expectations about how they wish to research, purchase and receive products and services have also evolved. It is difficult to predict the mix of products and services that our customers will demand. Failure to identify such trends, adapt our business concept, and implement change, growth, and productivity initiatives successfully could negatively affect our relationship with our customers, the demand for the home improvement products and services we sell, the rate of growth of our business, our market share, and results of operations.

We may not be able to realize the benefits of our strategic initiatives focused on omni-channel sales and marketing presence if we fail to deliver the capabilities required to execute on them.
Our interactions with customers has evolved into an omni-channel experience as they increasingly are using computers, tablets, mobile phones and other devices to shop in our stores and online and provide feedback and public

commentary about all aspects of our business. Omni-channel retail is quickly evolving, and we must anticipate and meet our customers' expectations and counteract new developments and technology investments by our competitors. Our customer-facing technology systems must appeal to our customers, function as designed and provide a consistent customer experience. The success of our strategic initiatives to adapt our business concept to our customers' changing shopping habits and demands and changing demographics will require us to deliver large, complex programs requiring more integrated planning, initiative prioritization and program sequencing. These initiatives will require new competencies in many positions, and our management, employees and contractors will have to adapt and learn new skills and capabilities. To the extent they are unable or unwilling to make these transformational changes, we may be unable to realize the full benefits of our strategic initiatives and expand our relevant market access. Our results of operations, financial condition or business prospects could also be adversely affected if we fail to provide a consistent experience for our customers, regardless of sales channel, if our technology systems do not meet our customers' expectations, if we are unable to counteract new developments and innovations implemented by our competitors, or if we are unable to attract, retain, and manage the talent succession of additional personnel at various levels of the Company who have the skills and capabilities we need to implement our strategic initiatives and drive the changes that are essential to successfully adapting our business concept in the rapidly changing retail environment.

Our business and our reputation could be adversely affected by cybersecurity incidents and the failure to protect customer, employee, vendor or Company information or to comply with evolving regulations relating to our obligation to protect our systems, assets and such information.
Cyber-attacks and tactics designed to gain access to and exploit sensitive information by breaching mission critical systems of large organizations are constantly evolving, and high profile security breaches leading to unauthorized release of sensitive customer information have occurred in recent years with increasing frequency at a number of major U.S. companies, including several large retailers, despite widespread recognition of the cyber-attack threat and improved data protection methods. As with many other retailers, we receive and store certain personal information about our customers, employees and vendors. Additionally, we use third-party service providers for certain services, such as authentication, content delivery, back-office support and other functions, and we provide such third-party service providers with personal information necessary for the services concerned. Despite our continued vigilance and investment in information security, we or our third-party service providers cannot guarantee that we or they are able to adequately anticipate or prevent a breach in our or their systems that results in the unauthorized access to, destruction, misuse or release of personal information or other sensitive data. It can be difficult to preempt or detect ever-evolving forms of cyber-attacks. If a ransomware attack occurs, it is possible that we could be prevented from accessing our own data. Our or our service providers' information security may also be compromised because of human errors, including by employees, or system errors. Our and our service providers' systems are additionally vulnerable to a number of other causes, such as power outages, computer viruses, technology system failures or catastrophic events. In the event that our systems are breached or damaged for any reason, we may also suffer loss or unavailability of data and interruptions to our business operations while such breach or damage is being remedied. Should these events occur, the unauthorized disclosure, loss or unavailability of data and disruption to our business may have a material adverse effect on our reputation, drive existing and potential customers away and lead to financial losses from remedial actions, or potential liability, including possible litigation and punitive damages. A security breach resulting in the unauthorized release of data from our or our third-party service providers' information systems could also materially increase the costs we already incur to protect against such risks and require dedication of substantial resources to manage the aftermath of such a breach. Data privacy and cybersecurity laws in the United States and internationally are constantly changing, and in the United States alone, we may be subject to regulation at both the federal and state level. In order to maintain our compliance with such laws as they come to fruition, we may sustain increased costs in order to continually evaluate our policies and processes and adapt to new requirements that are or become applicable to us. As the regulatory environment relating to retailers' and other companies' obligation to protect personal information becomes stricter, a material failure on our part to comply with applicable regulations could subject us to fines, other regulatory sanctions or government investigation, and potentially to lawsuits brought by private individuals, regulators or states' attorney general.

We could be adversely affected by the failure to adequately protect and maintain our intellectual property rights or claims by third parties that we infringe their intellectual property rights.
Our proprietary rights in our trademarks, trade names, service marks, domain names, copyrights, patents, trade secrets and other intellectual property rights are valuable assets of our business. We rely on a combination of trademark law, patent law, copyright law, trade secret protections and contractual arrangements, such as nondisclosure and confidentiality agreements, to protect our proprietary rights. Maintenance and, when necessary, enforcement of our intellectual property rights require expenditure of financial and managerial resources, and despite our efforts, we may not always be able to effectively protect all of such rights. We may not be able to prevent or even discover every instance of unauthorized third party uses of our intellectual property or dilution of our brand names, such as when a third party uses trademarks that are identical or similar to our own. Additionally, our trade secrets are vulnerable to public disclosure by our own employees or as a result of a breach of or damage to our systems, which could result in theft of our proprietary property. We may also be subject to intellectual property infringement lawsuits, brought by third parties against us claiming that our operations, products or services infringe third party

rights (whether meritorious or not), including patent and trademark rights, which can be time consuming and costly to defend or settle and may cause significant diversion of management attention and result in substantial monetary damages, injunctive orders against us, unfavorable royalty-bearing licensing agreements or bad publicity.

We are subject to payments-related risks that could increase our operating costs, expose us to fraud, subject us to potential liability and potentially disrupt our business.

We accept payments using a variety of methods, including credit cards, debit cards, credit accounts, our private label and co-branded credit cards, gift cards, direct debit from a customer's bank account, consumer invoicing and physical bank checks, and we may offer different payment options over time. These payment options subject us to many compliance requirements, including, but not limited to, compliance with payment card association operating rules, including data security rules, certification requirements, rules governing electronic funds transfers and Payment Card Industry Data Security Standards. They also subject us to potential fraud by criminal elements seeking to discover and take advantage of security vulnerabilities that may exist in some of these payment systems. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, electronic checks, gift cards and promotional financing, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected.

As customer-facing technology systems become an increasingly important part of our omni-channel sales and marketing strategy, the failure of those systems to perform effectively and reliably could keep us from delivering positive customer experiences.

Access to the Internet from computers, tablets, smart phones and other mobile communication devices has empowered our customers and changed the way they shop and how we interact with them. Our websites, including Lowes.com and Lowesforpros.com, are a sales channel for our products, and are also a method of making product, project and other relevant information available to our customers that impacts our in-store sales. Additionally, we have multiple affiliated websites and mobile apps through which we seek to inspire, inform, cross-sell, establish online communities among and otherwise interact with our customers. Performance issues with these customer-facing technology systems, including temporary outages caused by distributed denial of service, ransomware or other cyber-attacks, or a complete failure of one or more of them without a disaster recovery plan that can be quickly implemented, could quickly destroy the positive benefits they provide to our home improvement business and negatively affect our customers' perceptions of Lowe's as a reliable online vendor and source of information about home improvement products and services.

If we fail to hire, train, manage and retain qualified sales associates and specialists with expanded skill sets or corporate support staff with the capabilities of delivering on strategic objectives, we could lose sales to our competitors, and our labor costs, resulting from operations or the execution of corporate strategies, could be negatively affected.

Our customers, whether they are homeowners, renters or commercial businesses, expect our sales associates and specialists to be well trained and knowledgeable about the products we sell and the home improvement services we provide. We compete with other retailers for many of our sales associates and specialists, and we invest significantly in them with respect to training and development to strive for high engagement. Increasingly, our sales associates and specialists must have expanded skill sets, including, in some instances, the ability to do in-home or telephone sales. A critical challenge we face is attracting and retaining a sufficiently diverse workforce that can deliver relevant, culturally competent and differentiated experiences for a wide variety of culturally diverse customers. In fact, in many of our stores, our employees must be able to serve customers whose primary language and cultural traditions are different from their own. Additionally, in order to deliver on the omni-channel expectations of our customers, we rely on the specialized training and capabilities of corporate support staff which are broadly sought after by our competitors. If we are unable to hire, train, manage and retain qualified sales associates and specialists, the quality of service we provide to our customers may decrease and our results of operations could be negatively affected. Furthermore, our ability to meet our labor needs while controlling our costs is subject to a variety of external factors, including wage rates, the availability of and competition for talent, health care and other benefit costs, our brand image and reputation, changing demographics, and adoption of new or revised employment and labor laws and regulations. Periodically, we are subject to labor organizing efforts, and if we become subject to collective bargaining agreements in the future, it could adversely affect how we operate our business and adversely affect our labor costs and our ability to retain a qualified workforce.

If we do not successfully manage the transition associated with the retirement of our Chief Executive Officer and the appointment of a new Chief Executive Officer, it could be viewed negatively by our customers and shareholders and could have an adverse impact on our business.

On March 26, 2018, we announced that Robert A. Niblock plans to retire as Chairman of the Board, President and Chief Executive Officer after a 25-year career with the Company. The board of directors has initiated a search for his successor, and in the interim Mr. Niblock will remain in his current role. Such leadership transitions can be inherently difficult to manage, and an inadequate transition may cause disruption to our business, including to our relationships with our customers, suppliers, vendors and employees. It may also make it more difficult to hire and retain key employees.

Positively and effectively managing our public image and reputation is critical to our business success, and, if our public image and reputation are damaged, it could negatively impact our relationships with our customers, vendors and store associates and specialists and, consequently, our business and results of operations.
Our public image and reputation are critical to ensuring that our customers shop at Lowe’s, our vendors want to do business with Lowe’s and our sales associates and specialists want to work for Lowe’s. We must continue to manage, preserve and grow Lowe’s public image and reputation. Any negative incident can erode trust and confidence quickly, and adverse publicity about us could damage our reputation and brand image, undermine our customers’ confidence, reduce demand for our products and services, affect our relationships with current and future vendors, impact our results of operations and affect our ability to retain and recruit store associates and specialists. The significant expansion in the use of social media over recent years has compounded the potential scope of the negative publicity that could be generated by such negative incidents.

Strategic transactions, such as our acquisition of RONA and Maintenance Supply Headquarters, involve risks, and we may not realize the expected benefits because of numerous uncertainties and risks.
We regularly consider and enter into strategic transactions, including mergers, acquisitions, joint ventures, investments and other growth, market and geographic expansion strategies, with the expectation that these transactions will result in increases in sales, cost savings, synergies and other various benefits. Our ability to deliver the expected benefits from any strategic transaction is subject to numerous uncertainties and risks, including our ability to integrate personnel, labor models, financial, IT and other systems successfully; disruption of our ongoing business and distraction of management; hiring additional management and other critical personnel; and increasing the scope, geographic diversity and complexity of our operations. Effective internal controls are necessary to provide reliable and accurate financial reports, and the integration of businesses may create complexity in our financial systems and internal controls and make them more difficult to manage. Integration of businesses into our internal control system could cause us to fail to meet our financial reporting obligations. Additionally, any impairment of goodwill or other assets acquired or divested in a strategic transaction or charges to earnings associated with any strategic transaction, may materially reduce our earnings. Our shareholders may react unfavorably to our strategic transactions. We may not realize any anticipated benefits from such transactions, we may be exposed to additional liabilities of any acquired business or joint venture and we may be exposed to litigation in connection with the strategic transaction. Further, we may finance these strategic transactions by incurring additional debt, which could increase leverage or impact our ability to access capital in the future.

Failure to achieve and maintain a high level of product and service quality could damage our image with customers and negatively impact our sales, profitability, cash flows and financial condition.
Product and service quality issues could result in a negative impact on customer confidence in Lowe’s and our brand image. If our product and service offerings do not meet applicable safety standards or our customers’ expectations regarding safety or quality, we could experience lost sales and increased costs and be exposed to legal, financial and reputational risks. Actual, potential or perceived product safety concerns could expose us to litigation, as well as government enforcement action, and result in costly product recalls and other liabilities. As a result, Lowe’s reputation as a retailer of high quality products and services, including both national and Lowe’s private brands, could suffer and impact customer loyalty.

We have many competitors who could take sales and market share from us if we fail to execute our merchandising, marketing and distribution strategies effectively, or if they develop a substantially more effective or lower cost means of meeting customer needs, resulting in a negative impact on our business and results of operations.
We operate in a highly competitive market for home improvement products and services and have numerous large and small, direct and indirect competitors. The principal competitive factors in our industry include convenience, customer service, quality and price of merchandise and services, in-stock levels, and merchandise assortment and presentation. We face growing competition from online and omni-channel retailers who have a similar product or service offering. Customers are increasingly able to quickly comparison shop and determine real-time product availability and price using digital tools. Our failure to respond effectively to competitive pressures and changes in the markets for home improvement products and services could affect our financial performance. Moreover, changes in the promotional pricing and other practices of our competitors, including the effects of competitor liquidation activities, may impact our results.

Our inability to effectively and efficiently manage and maintain our relationships with selected suppliers of brand name products could negatively impact our business operations and financial results.

We form strategic relationships with selected suppliers to market and develop products under a variety of recognized and respected national and international brand names. We also have relationships with certain suppliers to enable us to sell proprietary products which differentiate us from other retailers. The inability to effectively and efficiently manage and maintain our relationships with these suppliers could negatively impact our business operations and financial results.

Failure of a key vendor or service provider that we cannot quickly replace could disrupt our operations and negatively impact our business, financial condition and results of operations.
We rely upon a number of vendors as the sole or primary source of some of the products we sell. We also rely upon many independent service providers for technology solutions and other services that are important to many aspects of our business. Many of these vendors and service providers have certain products or specialized skills needed to support our business concept and our strategies. If these vendors or service providers discontinue operations or are unable to perform as expected or if we fail to manage them properly or we are unable to replace them quickly, our business could be adversely affected, at least temporarily, until we are able to replace them.

If our domestic or international supply chain or our fulfillment network for our products is ineffective or disrupted for any reason, or if these operations are subject to trade policy changes, our results of operations could be adversely affected.
We source, stock and sell products from domestic and international vendors, and their ability to reliably and efficiently fulfill our orders is critical to our business success. We source a large number of our products from foreign manufacturers, with China being the dominant import source. The current United States administration has signaled the possibility of major changes in certain tax and trade policies, tariffs and other regulations affecting trade between the United States and other countries, such as the imposition of additional tariffs or duties on imported products and the exit or renegotiation of certain trade agreements, including the North American Free Trade Act and the rules of the World Trade Organization. While it is not possible to predict whether or when any such changes will occur or what form they may take, because we source a large percentage of our merchandise from outside the United States, major changes in tax or trade policies, tariffs or trade relations could adversely affect our business, results of operations, effective income tax rate, liquidity and net income. In addition, other countries may change their business and trade policies in anticipation of or in response to increased import tariffs and other changes in United States trade policy and regulations.

Financial instability among key vendors, political instability and labor unrest in source countries or elsewhere in our supply chain, changes in the total costs in our supply chain (fuel, labor and currency exchange rates), port labor disputes and security, the outbreak of pandemics, weather-related events, natural disasters, work stoppages, shipping capacity restraints, changes in trade policy, retaliatory trade restrictions imposed by either the United States or a major source country, tariffs or duties, fluctuations in currency exchange rates and transport availability, capacity and costs are beyond our control and could negatively impact our business if they seriously disrupted the movement of products through our supply chain or increased their costs. Additionally, as we add fulfillment capabilities or pursue strategies with different fulfillment requirements, our fulfillment network becomes increasingly complex and operating it becomes more challenging. If our fulfillment network does not operate properly or if a vendor fails to deliver on its commitments, we could experience delays in inventory, increased delivery costs or merchandise out-of-stocks that could lead to lost sales and decreased customer confidence, and adversely affect our results of operations.

Failure to effectively manage our third-party installers could result in increased operational and legal risks and negatively impact our business, financial condition and results of operations.
We use third-party installers to provide installation services to our customers, and, as the general contractor, we are subject to regulatory requirements and risks applicable to general contractors, including the management of the permitting, licensing and quality of our third-party installers. Our failure to effectively manage such requirements, the third-party installers, and our internal processes regarding installation services could result in lost sales, fines and lawsuits, as well as damage to our reputation, which could negatively affect our business.

Operating internationally presents unique challenges, including some that have required us to adapt our store operations, merchandising, marketing and distribution functions to serve customers in Canada and Mexico. Our business and results of operations could be negatively affected if we are unable to effectively address these challenges.
We expect continued store growth over the next five years in Canada and Mexico. Expanding internationally presents unique challenges that may increase the anticipated costs and risks, and slow the anticipated rate, of such expansion. Our future operating results in these countries or in other countries or regions in which we currently operate or may operate in the future could be negatively affected by a variety of factors, including unfavorable political or economic factors, adverse tax consequences, volatility in foreign currency exchange rates, increased difficulty in enforcing intellectual property rights, costs and difficulties of managing international operations, challenges with identifying and contracting with local suppliers and other risks created as a result of differences in culture, laws and regulations. These factors could restrict our ability to operate our international businesses profitably and therefore have a negative impact on our results of operations and financial position. In addition, our reported

results of operations and financial position could also be negatively affected by exchange rates when the activities and balances of our foreign operations are translated into U.S. dollars for financial reporting purposes.

We must comply with various and multiple laws and regulations that differ substantially in each area where we operate. Changes in existing or new laws and regulations or regulatory enforcement priorities, or our inability to comply with such laws and regulations, could adversely affect our business, financial condition and results of operations.
Laws and regulations at the local, regional, state, federal and international levels change frequently, and the changes can impose significant costs and other burdens of compliance on our business and our vendors. If we fail to comply with these laws, rules and regulations, or the manner in which they are interpreted or applied, we may be subject to government enforcement action, litigation, damage to our reputation, civil and criminal liability, damages, fines and penalties, and increased cost of regulatory compliance, any of which could adversely affect our results of operations and financial performance. These laws, rules and regulations include, but are not limited to, import and export requirements, U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to governmental officials. Although we have implemented policies and procedures to help ensure compliance with these laws, rules and regulations, there can be no certainty that our employees and third parties with whom we do business will not take actions in violation of our policies or laws. Many of these laws, rules and regulations are complex, evolving and are subject to varying interpretations and enforcement actions. Any changes in regulations, the imposition of additional regulations, or the enactment of any new legislation could have an adverse impact, directly or indirectly, on our financial condition and results of operations. We may also be subject to investigations or audits by governmental authorities and regulatory agencies as a result of enforcing existing laws and regulations or changes in enforcement priorities, which can occur in the ordinary course of business or which can result from increased scrutiny from a particular agency towards an industry, country or practice.

Future litigation or governmental proceedings could result in material adverse consequences, including judgments or settlements, negatively affecting our business, financial condition and results of operations.
We are, and in the future will become, involved in lawsuits, regulatory inquiries, and governmental and other legal proceedings arising out of the ordinary course of our business. Some of these proceedings may raise difficult and complicated factual and legal issues and can be subject to uncertainties and complexities. The timing of the final resolutions to lawsuits, regulatory inquiries, and governmental and other legal proceedings is typically uncertain. Additionally, the possible outcomes of, or resolutions to, these proceedings could include adverse judgments or settlements, either of which could require substantial payments. Furthermore, defending against these proceedings may require a diversion of management's attention and resources. None of the legal proceedings in which we are currently involved, individually or collectively, is considered material.

Our financial performance could be adversely affected if our management information systems are seriously disrupted or we fail to properly maintain, improve, upgrade and expand those systems.
Our efforts to provide an omni-channel experience for our customers include investing in, maintaining and making ongoing improvements of our existing management information systems that support operations, such as sales, inventory replenishment, merchandise ordering, project design and execution, transportation, receipt processing and fulfillment. Our systems are subject to damage or interruption as a result of catastrophic events, power outages, viruses, malicious attacks, and telecommunications failures, and as a result we may incur significant expense, data loss as well as an erosion of customer confidence. Additionally, we continually make investments in our systems which may introduce disruption. Our financial performance could be adversely affected if our management information systems are seriously disrupted or we fail to properly maintain, improve, upgrade and expand those systems.

Liquidity and access to capital rely on efficient, rational and open capital markets and are dependent on Lowe's credit strength. Our inability to access capital markets could negatively affect our business, financial performance and results of operations.
We have relied on the public debt markets to fund portions of our capital investments and the commercial paper market and bank credit facilities to fund our working capital needs. Our access to these markets depends on our strong credit ratings, the overall condition of debt capital markets and our operating performance. Disruption in the financial markets or an erosion of our credit strength or declines on our credit rating could impact negatively our ability to meet capital requirements or fund working capital needs.

Our sales are dependent upon the health and stability of the general economy. Adverse changes in economic factors specific to the home improvement industry may negatively impact the rate of growth of our total sales and comparable sales.
Many U.S. and global economic factors may adversely affect our financial performance. These include, but are not limited to, periods of slow economic growth or recession, decreasing housing turnover or home price appreciation, volatility and/or lack of liquidity from time to time in U.S. and world financial markets and the consequent reduced

availability and/or higher cost of borrowing to Lowe’s and its customers, slower rates of growth in real disposable personal income that could affect the rate of growth in consumer spending, high rates of unemployment, consumer debt levels, fluctuations in fuel and energy costs, inflation or deflation of commodity prices, natural disasters, and acts of both domestic and international terrorism. Sales of many of our product categories and services are driven by the activity level of home improvement projects. Adverse development in these factors could result in a decrease in home improvement activity which could reduce demand for our products and services.

Item 1B - Unresolved Staff Comments

None.

Item 2 - Properties

At February 2, 2018, our properties consisted of 2,152 stores in the U.S., Canada, and Mexico with a total of approximately 215 million square feet of selling space. Of the total stores operating at February 2, 2018, approximately 79% are owned, which includes stores on leased land, with the remainder being leased from third parties. We also operate regional distribution centers and other facilities to support distribution and fulfillment, as well as data centers and various support offices. Our executive offices are located in Mooresville, North Carolina.

Item 3 - Legal Proceedings

The Company is from time to time a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. With respect to such lawsuits, claims and proceedings, the Company records reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. The Company does not believe that any of these proceedings, individually or in the aggregate, would be expected to have a material adverse effect on its results of operations, financial position, or cash flows. The Company maintains liability insurance for certain risks that are subject to certain self-insurance limits.

Item 4 - Mine Safety Disclosures

Not applicable.

Table of Contents

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is a list of names and ages of the executive officers of the registrant indicating all positions and offices with the registrant held by each such person and each person's principal occupations or employment during the past five years. Each executive officer of the registrant is elected by the board of directors. Each executive officer of the registrant holds office from the date of election until a successor is elected or until his or her death, resignation or removal.

On March 26, 2018, we announced that Robert A. Niblock plans to retire as Chairman of the Board, President and Chief Executive Officer after a 25-year career with the Company. The board of directors has initiated a search for his successor, and in the interim Mr. Niblock will remain in his current role.

Name	Age	Title
Robert A. Niblock	55	Chairman of the Board, President and Chief Executive Officer since 2011.
Marshall A. Croom	57	Chief Financial Officer since March 2017; Chief Risk Officer, 2012 – March 2017.
Matthew V. Hollifield	51	Senior Vice President and Chief Accounting Officer since 2005.
Richard D. Maltsbarger	42	Chief Operating Officer since February 2018; Chief Development Officer and President of International, 2015 – February 2018; Chief Development Officer, 2014 – 2015; Business Development Executive, 2012 – 2014.
Ross W. McCanless	60	Chief Legal Officer and Secretary since 2017; Chief Legal Officer, Secretary and Chief Compliance Officer, 2016 – 2017; General Counsel, Secretary and Chief Compliance Officer, 2015 – 2016; Chief Legal Officer, Extended Stay America, Inc. and ESH Hospitality, Inc., 2013 – 2014; Chief Legal Officer, HVM, L.L.C., 2012 – 2013.
Michael P. McDermott	48	Chief Customer Officer since 2016; Chief Merchandising Officer, 2014 – 2016; Senior Vice President and General Merchandising Manager – Building and Maintenance, 2013 – 2014; Sales Leader – Appliances, General Electric Company, 2011 – 2013.
N. Brian Peace	52	Corporate Administration Executive since 2012.
Paul D. Ramsay	53	Chief Information Officer since 2014; Senior Vice President, Information Technology, 2011 – 2014.
Jennifer L. Weber	51	Chief Human Resources Officer since 2016; Executive Vice President, External Affairs and Strategic Policy, Duke Energy Corporation, 2014 – 2016; Executive Vice President and Chief Human Resources Officer, Duke Energy Corporation, 2011 – 2014.

Part II

Item 5 - Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Lowe's common stock is traded on the New York Stock Exchange (NYSE). The ticker symbol for Lowe's is "LOW". As of March 29, 2018, there were 22,926 holders of record of Lowe's common stock. The following table sets forth, for the periods indicated, the high and low sales prices per share of the common stock as reported by the NYSE Composite Tape and the dividends per share declared on the common stock during such periods.

	Fiscal 2017			Fiscal 2016		
	High	**Low**	**Dividend**	**High**	**Low**	**Dividend**
1st Quarter	$ 86.00	$ 72.11	$ 0.35	$ 77.63	$ 62.62	$ 0.28
2nd Quarter	86.25	71.58	0.41	83.65	74.56	0.35
3rd Quarter	82.74	70.76	0.41	82.68	66.71	0.35
4th Quarter	108.98	77.14	0.41	76.47	64.87	0.35

Total Return to Shareholders

The following information in Item 5 of this Annual Report is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

The following table and graph compare the total returns (assuming reinvestment of dividends) of the Company's common stock, the S&P 500 Index (S&P 500) and the S&P Retailing Industry Group Index (S&P Retail Index). The graph assumes $100 invested on February 1, 2013 in the Company's common stock and each of the indices.

totalreturnsgraph2017.jpg

	2/1/2013	1/31/2014	1/30/2015	1/29/2016	2/3/2017	2/2/2018
Lowe's	$ 100.00	$ 121.96	$ 181.46	$ 194.85	$ 202.83	$ 286.15
S&P 500	100.00	120.30	137.42	136.50	165.26	202.66
S&P Retail Index	$ 100.00	$ 123.90	$ 147.13	$ 170.01	$ 197.77	$ 278.96

Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of the Company's common stock made during the fourth quarter of fiscal 2017:

	Total Number of Shares Purchased [1]		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
November 4, 2017 – December 1, 2017	1,677,589	$	79.14	1,677,580	$ 1,943,395,179
December 2, 2017 – January 5, 2018	931		88.59	—	1,943,395,179
January 6, 2018 – February 2, 2018	570		103.70	—	6,943,395,179
As of February 2, 2018	**1,679,090**	**$**	**79.16**	**1,677,580**	**$ 6,943,395,179**

1 *The total number of shares purchased includes shares withheld from employees to satisfy either the exercise price of stock options or the statutory withholding tax liability upon the vesting of share-based awards.*

2 *On January 27, 2017, the Company announced that its Board of Directors authorized a $5.0 billion repurchase program with no expiration. On January 26, 2018, the Company announced that its Board of Directors authorized an additional $5.0 billion of share repurchases with no expiration.*

Item 6 - Selected Financial Data

Selected Statement of Earnings Data (In millions, except per share data)		2017		2016 [1, 2]		2015		2014		2013
Net sales	$	68,619	$	65,017	$	59,074	$	56,223	$	53,417
Gross margin		23,409		22,464		20,570		19,558		18,476
Operating income		6,586		5,846		4,971		4,792		4,149
Net earnings		3,447		3,093		2,546		2,698		2,286
Basic earnings per common share		4.09		3.48		2.73		2.71		2.14
Diluted earnings per common share		4.09		3.47		2.73		2.71		2.14
Dividends per share	$	1.58	$	1.33	$	1.07	$	0.87	$	0.70
Selected Balance Sheet Data										
Total assets	$	35,291	$	34,408	$	31,266	$	31,721	$	32,471
Long-term debt, excluding current maturities	$	15,564	$	14,394	$	11,545	$	10,806	$	10,077

1 *Fiscal 2016 contained 53 weeks, while all other years contained 52 weeks.*

2 *Fiscal 2016 includes the acquisition of RONA inc. See Note 2 to the consolidated financial statements included in this Annual Report.*

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the three-year period ended February 2, 2018 (our fiscal years 2017, 2016 and 2015). Fiscal year 2016 contains 53 weeks of operating results compared to fiscal years 2017 and 2015 which contain 52 weeks. Unless otherwise noted, all references herein for the years 2017, 2016 and 2015 represent the fiscal years ended February 2, 2018, February 3, 2017 and January 29, 2016, respectively. We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. This discussion should be read in conjunction with our consolidated financial statements and notes to the consolidated financial statements included in this Annual Report that have been prepared in accordance with accounting principles generally accepted in the United States of America. This discussion and analysis is presented in six sections:

- Executive Overview
- Operations
- Financial Condition, Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Contractual Obligations and Commercial Commitments
- Critical Accounting Policies and Estimates

EXECUTIVE OVERVIEW

Net sales for 2017 were $68.6 billion, a 5.5% increase over fiscal year 2016. The increase in total sales was driven primarily by an increase in comparable sales, the addition of RONA in May of 2016, new stores, and the acquisition of Maintenance Supply Headquarters in June 2017, partially offset by the 53rd week impacts in the prior year. Comparable sales increased 4.0%, driven by a comparable average ticket increase of 4.1% and a comparable transaction decrease of 0.1%. RONA, new stores, and Maintenance Supply Headquarters contributed 2.2%, 0.7% and 0.3%, respectively, to the sales growth for 2017. The 53rd week in 2016 and resulting week shift negatively impacted 2017 sales growth by 1.3%. Net earnings increased 11.5% to $3.4 billion. Diluted earnings per common share increased 17.9% in fiscal year 2017 to $4.09 from $3.47 in 2016. Adjusting 2017 and 2016 amounts for certain significant discrete items not originally contemplated in the business outlooks for those respective years, adjusted diluted earnings per common share increased 10.0% in fiscal year 2017 to $4.39 from $3.99 in 2016 (see discussion on non-GAAP financial measures beginning on page 22).

For 2017, cash flows from operating activities were approximately $5.1 billion, with $1.1 billion used for capital expenditures. Continuing to deliver on our commitment to return excess cash to shareholders, the Company repurchased 39.1 million shares of stock through the share repurchase program for $3.1 billion and paid $1.3 billion in dividends during the year.

During the year, we focused on investing in capabilities to support the DIY, DIFM, and Pro customers' needs and expanding our home improvement reach. We made further progress on advancing our customer service capabilities through our omni-channel assets, empowering customers across the most relevant moments of their project journey. We leveraged our investments in Lowes.com to provide an upgraded online shopping experience and advanced our online platform by making it easier for customers to engage with our in-home Project Specialists and request services online. Our Project Specialists represent a critical element of our omni-channel offering and a differentiated capability in capturing project demand for the DIFM customer. In addition, we continued to build upon our strong foundation with the Pro customer by focusing on our breadth and depth of inventory, portfolio of brands, and enhancing digital focus on LowesForPros.com. The acquisition of Maintenance Supply Headquarters during 2017, in addition to the Central Wholesalers, Inc. acquisition in the prior year, will provide an opportunity to improve and expand our ability to serve the multi-family housing industry. We also continued to make progress on the integration of RONA, including the roll-out of Appliances to approximately 100 locations as well as further optimizing our shared supplier relationships and procurement efforts. During 2017, we converted five RONA stores to a Lowe's-branded store as part of our initiative to convert certain larger format locations, where we are combining the best elements of Lowe's store experience, merchandising, and brands with RONA's strong Pro offerings.

While we are pleased with the strategic milestones we achieved this year, we are actively working to improve conversion, gross margin, and inventory management to ensure greater success in the future. We will be taking the necessary actions to transform our supply chain, better empower our associates through training programs and the re-engineering of key processes such as Pick Up In Store and centralized project quoting, and continue to deliver compelling product experiences.

In 2018, we look to capitalize on a strong macroeconomic environment and see an opportunity to invest incremental cash flow from corporate tax reform to accelerate our strategic priorities. We will be focusing our investments on the following six strategic areas to build upon our strong foundation which will be instrumental to further strengthening our competitiveness and enhancing our position as the omni-channel project authority:

- We are focusing on leveraging analytics to know the customer and their homes better, understanding their plans and designing better solutions to help them navigate their project journey.
- We are improving how we engage, connecting with customers and associates through relevant tools and personalized messages through our enhanced marketing management platform. We will better empower our associates by deploying more user-friendly interfaces allowing our associates to better serve customers.
- We are expanding our fulfillment options to better serve customers' needs and expectations including investing in a new direct fulfillment center which will allow for the expansion of our online product offering and faster parcel shipping, investing in delivery capacity to meet increased demand, and advancing our Pick Up In Store experience to allow customers and our installation service providers to pick up products quickly.
- We are continuing to deliver compelling product experiences to provide inspiration and personalized choices through a combination of strategic brands and differentiated store experiences.
- We are investing to improve the Pro experience in order to grow our Pro sales and expand our market share including building on our strength with the maintenance, repair & operations customer and increasing relevance with specialty trades and repair/re-modelers.
- We are providing a differentiated service offering for the DIFM customer, delivering complete home improvement project solutions through our in-home sales platform.

Through these six strategic areas, we are focusing our resources on what is most relevant to the customer, building the capabilities required to deliver simple and seamless omni-channel experiences for DIY, DIFM, and Pro customers and engaging them in the moments that matter most.

OPERATIONS

The following tables set forth the percentage relationship to net sales of each line item of the consolidated statements of earnings, as well as the percentage change in dollar amounts from the prior year. This table should be read in conjunction with the following discussion and analysis and the consolidated financial statements, including the related notes to the consolidated financial statements.

			Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year[1]	Percentage Increase / (Decrease) in Dollar Amounts from Prior Year[1]
	2017	**2016**	**2017 vs. 2016**	**2017 vs. 2016**
Net sales	**100.00%**	**100.00%**	**N/A**	**5.5 %**
Gross margin	**34.11**	**34.55**	**(44)**	**4.2**
Expenses:				
Selling, general and administrative	22.40	23.27	(87)	1.6
Depreciation and amortization	2.11	2.29	(18)	(2.8)
Operating income	**9.60**	**8.99**	**61**	**12.6**
Interest - net	0.92	0.99	(7)	(2.0)
Loss on extinguishment of debt	0.68	—	**68**	N/A
Pre-tax earnings	**8.00**	**8.00**	**—**	**5.5**
Income tax provision	2.98	3.24	(26)	(3.2)
Net earnings	**5.02%**	**4.76%**	**26**	**11.5 %**

			Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year[1]	Percentage Increase / (Decrease) in Dollar Amounts from Prior Year[1]
	2016	**2015**	**2016 vs. 2015**	**2016 vs. 2015**
Net sales	**100.00%**	**100.00%**	**N/A**	**10.1 %**
Gross margin	**34.55**	**34.82**	**(27)**	**9.2**
Expenses:				
Selling, general and administrative	23.27	23.88	(61)	7.2
Depreciation and amortization	2.29	2.53	(24)	(0.3)
Operating income	**8.99**	**8.41**	**58**	**17.6**
Interest - net	0.99	0.93	6	16.9
Pre-tax earnings	**8.00**	**7.48**	**52**	**17.7**
Income tax provision	3.24	3.17	7	12.6
Net earnings	**4.76%**	**4.31%**	**45**	**21.5 %**

[1] *The fiscal year ended February 3, 2017 had 53 weeks. The fiscal years ended February 2, 2018 and January 29, 2016 had 52 weeks.*

Other Metrics	2017	2016	2015
Comparable sales increase [2]	4.0%	4.2%	4.8%
Total customer transactions (in millions) [1]	953	945	878
Average ticket [3]	$ 72.00	$ 68.83	$ 67.26
At end of year:			
Number of stores [4]	2,152	2,129	1,857
Sales floor square feet (in millions)	215	213	202
Average store size selling square feet (in thousands) [5]	100	100	109
Return on average assets [6]	9.5%	8.9%	7.8%
Return on average shareholders' equity [7]	59.2%	44.4%	28.8%
Return on invested capital [8]	18.8%	15.8%	14.1%

1 *The fiscal year ended February 3, 2017 had 53 weeks. The fiscal years ended February 2, 2018 and January 29, 2016 had 52 weeks.*

2 *A comparable location is defined as a location that has been open longer than 13 months. A location that is identified for relocation is no longer considered comparable in the month of its relocation. The relocated location must then remain open longer than 13 months to be considered comparable. A location we have decided to close is no longer considered comparable as of the beginning of the month in which we announce its closing. Acquired locations are included in the comparable sales calculation beginning in the first full month following the first anniversary of the date of the acquisition. Comparable sales include online sales, which positively impacted fiscal 2017 by approximately 120 basis points. The comparable store sales calculation for fiscal 2016 included in the preceding table was calculated using sales for a comparable 53-week period.*

3 *Average ticket is defined as net sales divided by the total number of customer transactions.*

4 *The number of stores as of February 3, 2017 includes 245 stores acquired in the acquisition of RONA.*

5 *Average store size selling square feet is defined as sales floor square feet divided by the number of stores open at the end of the period. The average Lowe's-branded home improvement store has approximately 112,000 square feet of retail selling space.*

6 *Return on average assets is defined as net earnings divided by average total assets for the last five quarters.*

7 *Return on average shareholders' equity is defined as net earnings divided by average shareholders' equity for the last five quarters.*

8 *Return on invested capital is a non-GAAP financial measure. See below for additional information and a reconciliation to the most comparable GAAP measure.*

Non-GAAP Financial Measures

Return on Invested Capital

Return on Invested Capital (ROIC) is calculated using a non-GAAP financial measure. We believe ROIC is a meaningful metric for investors because it represents management's measure of how effectively the Company is using capital to generate profits. Although ROIC is a common financial metric, numerous methods exist for calculating ROIC. Accordingly, the method used by our management to calculate ROIC may differ from the methods other companies use to calculate their ROIC. We encourage you to understand the methods used by another company to calculate its ROIC before comparing its ROIC to ours.

We define ROIC as trailing four quarters' net operating profit after tax (NOPAT) divided by the average of ending debt and equity for the last five quarters. NOPAT is a non-GAAP financial measure, and net earnings is considered to be the most comparable GAAP financial measure to NOPAT. The calculation of ROIC, together with a reconciliation of NOPAT to net earnings, the most comparable GAAP financial measure, is as follows:

(In millions, except percentage data)		2017		2016		2015
Calculation of Return on Invested Capital						
Numerator						
Net earnings	$	3,447	$	3,093	$	2,546
Plus:						
Interest expense - net		633		645		552
Loss on extinguishment of debt		464		—		—
Provision for income taxes		2,042		2,108		1,873
Net operating profit		6,586		5,846		4,971
Less:						
Income tax adjustment [1]		2,450		2,370		2,058
Net operating profit after tax	$	4,136	$	3,476	$	2,913
Denominator						
Average debt and equity [2]	$	21,999	$	21,958	$	20,693
Return on invested capital		**18.8 %**		**15.8 %**		**14.1 %**

[1] *Income tax adjustment is defined as net operating profit multiplied by the effective tax rate, which was 37.2%, 40.5%, and 42.4% for 2017, 2016, and 2015, respectively.*

[2] *Average debt and equity is defined as average debt, including current maturities and short-term borrowings, plus total equity for the last five quarters.*

Adjusted Diluted Earnings Per Share

Adjusted diluted earnings per share is considered a non-GAAP financial measure. The Company believes this non-GAAP financial measure provides useful insight for analysts and investors in evaluating what management considers the Company’s core financial performance. Adjusted diluted earnings per share excludes the impact of certain discrete items not contemplated in the Company’s business outlooks for 2017, 2016, and 2015. Unless otherwise noted, the income tax effect of these adjustments is calculated using the marginal rates for the respective periods.

Adjusted diluted earnings per share should not be considered an alternative to, or more meaningful indicator of, the Company’s diluted earnings per common share as prepared in accordance with GAAP. The Company’s methods of determining this non-GAAP financial measure may differ from the method used by other companies for this or similar non-GAAP financial measures. Accordingly, these non-GAAP measures may not be comparable to the measures used by other companies.

Table of Contents

	2017			2016			2015		
	Pre-Tax Earnings	Tax	Net Earnings	Pre-Tax Earnings	Tax	Net Earnings	Pre-Tax Earnings	Tax	Net Earnings
Diluted earnings per share, as reported			**$ 4.09**			**$ 3.47**			**$ 2.73**
Non-GAAP Adjustments - per share impacts									
Impact of tax reform [1]	—	0.02	0.02	—	—	—	—	—	—
One-time cash bonus attributable to tax reform [2]	0.08	(0.03)	0.05	—	—	—	—	—	—
Gain on sale of interest in Australian joint venture [3]	(0.11)	—	(0.11)	—	—	—	—	—	—
Loss on extinguishment of debt [4]	0.55	(0.21)	0.34	—	—	—	—	—	—
Severance-related costs [5]	—	—	—	0.09	(0.03)	0.06	—	—	—
IRC Section 987 charge [6]	—	—	—	—	0.04	0.04	—	—	—
Premium paid to acquire noncontrolling interest [7]	—	—	—	—	—	0.02	—	—	—
Net gain on foreign currency hedge [8]	—	—	—	(0.09)	0.04	(0.05)	—	—	—
Australian joint venture impairment [9]	—	—	—	0.33	—	0.33	0.56	—	0.56
Project write-offs [10]	—	—	—	0.11	(0.04)	0.07	—	—	—
Orchard Supply Hardware goodwill and long-lived asset impairment [11]	—	—	—	0.08	(0.03)	0.05	—	—	—
Adjusted diluted earnings per share			**$ 4.39**			**$ 3.99**			**$ 3.29**

1 *Represents the net impact related to the passage of the Tax Cuts and Jobs Act of 2017.*

2 *Represents the one-time cash bonus for eligible hourly employees attributable to the passage of the Tax Cuts and Jobs Act of 2017.*

3 *Represents the gain from the sale of the Company's interest in its Australian joint venture with Woolworths. This gain had no impact on the Company's income tax provision due to the reduction of a previously established deferred tax valuation allowance.*

4 *Represents the loss on extinguishment of debt in connection with a $1.6 billion cash tender offer.*

5 *Represents the costs associated with the Company's organizational changes in the stores, distribution centers, and corporate offices.*

6 *Represents tax charge primarily related to the issuance of Internal Revenue Code Section 987 final and temporary regulations in 2016.*

7 *Represents the premium paid to RONA's preferred shareholders. Under the two-class method, the premium paid was deducted from net earnings to compute net earnings allocable to common shareholders.*

8 *Represents the net settlement of a foreign currency hedge entered into in advance of the Company's acquisition of RONA during 2016.*

[9] *Represents impairment charges related to the Company's Australian joint venture with Woolworths. The charge had no impact on the Company's income tax provision due to the establishment of a full deferred tax valuation allowance.*

[10] *Represents charges recognized in 2016 for projects canceled as a part of the Company's ongoing review of strategic initiatives.*

[11] *Represents impairment charges associated with the Company's Orchard Supply Hardware operations as part of a strategic reassessment of this business during 2016.*

Fiscal 2017 Compared to Fiscal 2016

For the purpose of the following discussion, comparable store sales, comparable store average ticket and comparable store customer transactions are based upon comparable 52-week periods.

Net Sales – Net sales increased 5.5% to $68.6 billion in 2017. The increase in total sales was driven by 4.0% comparable sales growth, the addition of RONA during the second quarter of 2016 (2.2%), new stores (0.7%), and the acquisition of Maintenance Supply Headquarters (0.3%), partially offset by the impact of the 53rd week in 2016 and resulting week shift in 2017 (1.3%). RONA retail sales are included in comparable sales beginning in Q2 2017. The comparable sales increase of 4.0% in 2017 was driven primarily by a 4.1% increase in comparable average ticket offset by a 0.1% decrease in comparable customer transactions. Comparable sales during each quarter of the fiscal year, as reported, were 1.9% in the first quarter, 4.5% in the second quarter, 5.7% in the third quarter, and 4.1% in the fourth quarter.

All of our product categories experienced comparable sales increases for the year. During 2017, we experienced comparable sales increases above the company average in Appliances, Lumber & Building Materials, Rough Plumbing & Electrical, and Tools & Hardware. Strong brand and service advantages in Appliances, as well as our continued investment in customer experience both in-store and online, drove strong comparable sales during the year. Lumber & Building Materials benefited from an increased demand for hurricane-related products, an increase in Pro demand, and inflation. We also achieved strong comparable sales in Rough Plumbing & Electrical and Tools & Hardware driven by continued improvements in brand relevance and demand from the Pro customer. Geographically, all of our 14 U.S. regions experienced positive comparable store sales.

During the fourth quarter of 2017, we experienced comparable sales increases in nine of 11 product categories, as well as flat comparable sales in Lawn & Garden and Fashion Fixtures. Comparable sales increases were above the company average in Appliances, Lumber & Building Materials, Rough Plumbing & Electrical, and Tools & Hardware. Strong brand and service advantages in Appliances, as well as our continued investment in customer experience both in-store and online, drove double digit comparable sales during the quarter. We achieved strong comparable sales in Lumber & Building materials driven by continued recovery efforts from Hurricane Irma and Harvey, inflation, and strong demand from the Pro customer. Our holiday performance combined with our strategy to serve demand for critical items customers needed during colder temperatures and winter storms drove performance in Rough Plumbing & Electrical and Tools & Hardware. Geographically, 13 of 14 U.S. regions experienced increases in comparable sales.

Gross Margin – Gross margin of 34.11% for 2017 represented a 44 basis point decrease from 2016. Gross margin was negatively impacted approximately 25 basis points due to competitive actions, approximately 10 basis points due to mix of products sold, and approximately 10 basis points due to damaged, clearance and non-productive inventory.

During the fourth quarter of 2017, gross margin of 33.73% decreased 68 basis points as a percentage of sales. Gross margin was negatively impacted approximately 45 basis points due to rate pressures associated with damaged, clearance and non-productive inventory, as well as competitive actions, and inflation in lumber. In addition, gross margin was negatively impacted by approximately 10 basis points due to mix of products sold and approximately 10 basis points due to higher shrink rates.

SG&A – SG&A expense for 2017 leveraged 87 basis points as a percentage of sales compared to 2016. This was primarily driven by 59 basis points of leverage attributable to the prior year non-cash impairment charge related to the investment in the Australian joint venture and the current year sale of our interest in the Australian joint venture, 27 basis points of leverage in operating salaries, 15 basis points of leverage primarily due to the prior year write-off of canceled technology-enabled projects, and 12 basis points of leverage associated with goodwill and long-lived asset impairments related to Orchard operations in the prior year. These were partially offset by 13 basis points of deleverage in outside delivery due to shifting a portion of our deliveries to third party providers in order to meet increased demand in Appliances, 12 basis points of deleverage due to the prior year settlement of the foreign currency option contract entered into in advance of the RONA acquisition, and 10 basis points of deleverage in risk insurance.

For the fourth quarter of 2017, SG&A expense deleveraged 29 basis points as a percentage of sales compared to the fourth quarter of 2016. This was primarily driven by 42 basis points of deleverage due to the one-time Tax Reform bonus, 21 basis points of deleverage in outside delivery due to a shift in our delivery strategy, and 14 basis points of deleverage in advertising as a result of our efforts to amplify consumer messaging. These were partially offset by 53 basis points of leverage associated with severance and related costs in the prior year for organizational changes in the stores, distribution centers, and corporate offices, 32 basis points in incentive compensation due to lower attainment levels compared to the prior year, and 21 basis points of leverage in employee insurance costs. Certain other costs also deleveraged as a result of the week shift related to the 53rd week in the prior fiscal year.

Depreciation and Amortization – Depreciation and amortization expense leveraged 18 basis points for 2017 compared to 2016 primarily due to the increase in sales and assets becoming fully depreciated partially offset by the incremental expense due to the acquisition of Maintenance Supply Headquarters. Property, less accumulated depreciation, decreased to $19.7 billion at February 2, 2018, compared to $19.9 billion at February 3, 2017. As of February 2, 2018 and February 3, 2017, we owned 79% of our stores, which included stores on leased land.

Depreciation and amortization expense for the fourth quarter of 2017 was flat compared to the prior year.

Table of Contents

Interest – Net – Net interest expense is comprised of the following:

(In millions)		2017		2016
Interest expense, net of amount capitalized	$	638	$	647
Amortization of original issue discount and loan costs		11		10
Interest income		(16)		(12)
Interest - net	**$**	**633**	**$**	**645**

Net interest expense decreased in 2017 primarily as a result of the cash tender offer to purchase and retire $1.6 billion aggregate principal amount of our outstanding notes, the payoff of scheduled debts at maturity, and the favorable settlement of accrued interest related to uncertain tax issues. These were partially offset by the issuance of unsecured notes in April 2016 and May 2017, respectively.

Loss on Extinguishment of Debt - During the first quarter of 2017, we repurchased and retired $1.6 billion aggregate principal amount of our outstanding debt resulting in a loss on extinguishment of debt of $464 million.

Income Tax Provision - Our effective income tax rate was 37.2% in 2017 compared to 40.5% in 2016. During 2017, the Company was impacted by the passage of the Tax Cuts and Job Act (the Tax Act), which provided a reduction in the statutory Federal rate from 35% to 21%. The effective date of January 1, 2018, resulted in the usage of a blended rate for the year of 33.7% for the Company. The new rate of 21% was applied against the Company's deferred balances resulting in a decrease of its overall deferred tax assets. The rate was also impacted by the one-time repatriation tax enacted under Internal Revenue Code Section 965. In 2016, final and temporary regulations were issued under Internal Revenue Code Section 987, which negatively impacted the Company's income tax rate due to the adjustment of deferred tax assets associated with cumulative currency translation adjustments related to certain of the Company's international operations. In addition, the Company recorded a deferred tax asset related to the investment in the Australian joint venture with Woolworths associated with the non-cash impairment charges that occurred during both 2016 and 2015. The deferred tax asset associated with these losses was offset with the establishment of a full valuation allowance due to the fact the benefit of these losses can only be realized to the extent the Company has available capital gains for offset, and no present or future capital gains have been identified through which this deferred tax asset can be realized.

Our effective income tax rates were 41.3% and 40.3% for the three months ended February 2, 2018, and February 3, 2017, respectively. The increase in the effective income tax rate is primarily due to the enactment of the Tax Act effective January 1, 2018. The federal rate was lowered from 35% to 21% as part of the Tax Act, which resulted in a tax benefit of $58 million for the year. The Company remeasured its deferred tax assets and liabilities using the new federal rate, which led to a one-time tax expense of approximately $56 million to reduce the Company's overall federal deferred tax asset. In addition, the Company recorded a $22 million provisional tax expense for the one-time transition tax on unrepatriated earnings of foreign subsidiaries.

Fiscal 2016 Compared to Fiscal 2015

For the purpose of the following discussion, comparable store sales, comparable store average ticket and comparable store customer transactions are based upon comparable 53-week periods.

Net Sales – Net sales increased 10.1% to $65.0 billion in 2016. The increase in total sales was driven by an increase in comparable sales, the addition of RONA, the 53rd week, and new stores. The addition of RONA and the 53rd week contributed 3.8% and 1.6%, respectively, to the sales growth for 2016. The comparable sales increase of 4.2% in 2016 was driven by a 2.5% increase in comparable average ticket and a 1.6% increase in comparable customer transactions. Comparable sales during each quarter of the fiscal year, as reported, were 7.3% in the first quarter, 2.0% in the second quarter, 2.7% in the third quarter, and 5.1% in the fourth quarter.

All of our product categories experienced comparable sales increases for the year. During 2016, we experienced comparable sales increases above the company average in Lumber & Building Materials, Appliances, Tools & Hardware, and Lawn & Garden. Performance in Lumber & Building Materials and Tools & Hardware was driven by strong demand from the Pro customer. Tools & Hardware also benefited from customers' positive response to our continued enhancements in product assortment and brand relevance. Strong brand and service advantages in Appliances, as well as our continued investment in customer experience both in-store and online, drove solid comparable sales during the year. An extended outdoor selling season as a result of favorable weather conditions, positively impacted sales within Lawn & Garden. Geographically, all of our 14 U.S. regions experienced increases in comparable store sales, with the strongest results in the South and Northwest.

During the fourth quarter of 2016, we experienced comparable sales increases in all of our product categories, with comparable sales increases above the company average in Appliances, Kitchens, Lawn & Garden, Lumber & Building Materials, and Rough Plumbing & Electrical. Strong brand and service advantages in Appliances as well as our successful Holiday events drove solid comparable sales during the quarter. Performance in Kitchens was driven by our strategy to focus on the entire Kitchen project, investment in project specialists, and targeted promotions. We experienced strength in several outdoor project categories, including Lawn & Garden, Lumber & Building Materials, and Rough Plumbing & Electrical. Warmer weather, particularly in the South and West, drove strong demand for outdoor projects in Lawn & Garden. Lumber & Building Materials benefited from continued recovery efforts from Hurricane Matthew and Louisiana flooding, as well as strong performance with the Pro customer.

Gross Margin – Gross margin of 34.55% for 2016 represented a 27 basis point decrease from 2015. The change was primarily driven by 23 basis points decrease due to purchase price adjustments to RONA's opening inventory balance, and 11 basis points decrease due to targeted promotional activity, partially offset by 9 basis points increase due to cost reductions associated with Value Improvement efforts.

During the fourth quarter of 2016, gross margin of 34.41% decreased 25 basis points as a percentage of sales. Gross margin was negatively impacted 25 basis points by the RONA business, primarily driven by purchase price adjustments to their opening inventory balance and mix of business.

SG&A – SG&A expense for 2016 leveraged 61 basis points as a percentage of sales compared to 2015. This was primarily driven by 45 basis points of net leverage associated with impairment charges recorded during 2016 versus 2015 relating to our Australian joint venture with Woolworths. We experienced 15 basis points of leverage associated with incentive compensation, 14 basis points in employee insurance costs, and 12 basis points related to the settlement of the foreign currency option contract entered into in anticipation of the RONA acquisition. This was partially offset by 15 basis points of deleverage associated with the write-off of cancelled technology-enabled projects as part of an ongoing review of our strategic initiatives and 12 basis points associated with severance and related costs for organizational changes in the stores, distribution centers, and corporate offices.

During the fourth quarter of 2016, SG&A expense leveraged 445 basis points as a percentage of sales due primarily to 403 basis points of leverage associated with a non-cash impairment charge resulting from our decision to exit our Australian joint venture recorded in the fourth quarter of the prior year. We experienced 59 basis points of leverage in benefits primarily related to incentive compensation due to lower attainment levels compared to the same quarter of the prior year. These were partially offset by 53 basis points of deleverage associated with separation events for organizational changes in the stores, distribution centers, and corporate offices. Store environment, operating salaries, and certain other costs also leveraged as a result of sales growth.

Depreciation and Amortization – Depreciation and amortization expense leveraged 24 basis points for 2016 compared to 2015 primarily due to the increase in sales from the 53rd week, partially offset by incremental expense due to the acquisition of RONA. Property, less accumulated depreciation, increased to $19.9 billion at February 3, 2017, compared to $19.6 billion at January 29, 2016. As of February 3, 2017, and January 29, 2016, we owned 79% and 86% of our stores, respectively, which included stores on leased land.

Interest – Net – Net interest expense is comprised of the following:

(In millions)		**2016**		**2015**
Interest expense, net of amount capitalized	$	647	$	548
Amortization of original issue discount and loan costs		10		8
Interest income		(12)		(4)
Interest - net	**$**	**645**	**$**	**552**

Net interest expense increased due primarily to an increase in total debt compared to the prior year.

Income Tax Provision - Our effective income tax rate was 40.5% in 2016 compared to 42.4% in 2015. During 2016, the Company was impacted by the issuance of the U.S. Internal Revenue Service Internal Revenue Code Section 987, which negatively impacted the income tax rate due to the adjustment of deferred tax assets associated with cumulative currency translation adjustments related to certain of the Company's international operations. In addition, the Company recorded a deferred tax asset related to the investment in the Australian joint venture with Woolworths associated with the non-cash impairment charges that occurred during both 2016 and 2015. The deferred tax asset associated with these losses was offset with the establishment of a full valuation allowance due to the fact the benefit of these losses can only be realized to the extent the Company has available capital gains for offset, and no present or future capital gains have been identified through which this deferred tax asset can be realized.

Our effective income tax rates were 40.3% and 96.1% for the three months ended February 3, 2017 and January 29, 2016, respectively, due to the same factors that impacted the income tax provision in the year.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Cash flows from operations, supplemented with our short-term and long-term borrowings, have been sufficient to fund our operations while allowing us to make strategic investments that will grow our business, and to return excess cash to shareholders in the form of dividends and share repurchases. We believe that our sources of liquidity will continue to be adequate to fund our operations and investments to grow our business, pay dividends, and fund our share repurchases over the next 12 months.

Cash Flows Provided by Operating Activities

(In millions)	2017	2016	2015
Net cash provided by operating activities	$ 5,065	$ 5,617	$ 4,784

Cash flows from operating activities continued to provide the primary source of our liquidity. The decrease in net cash provided by operating activities for 2017, when compared to 2016, was driven primarily by changes in working capital and was partially offset by an increase in net earnings, adjusted for non-cash expenses.

The increase in net cash provided by operating activities for 2016, when compared to 2015, was driven primarily by an increase in net earnings, adjusted for non-cash expenses, and improved working capital management.

We are forecasting cash flows from operations of approximately $6.5 billion for 2018, which includes $750 million of expected incremental cash flow benefit related to the enactment of the Tax Cuts and Jobs Act of 2017.

Cash Flows Used in Investing Activities

(In millions)	2017	2016	2015
Net cash used in investing activities	$ (1,441)	$ (3,361)	$ (1,343)

Net cash used in investing activities primarily consist of transactions related to capital expenditures and business acquisitions.

Capital expenditures

Our capital expenditures generally consist of investments in our existing stores, expansion plans, corporate programs, and our existing distribution network. Capital expenditures were $1.1 billion in 2017, and $1.2 billion in 2016 and 2015. The following table provides the allocation of capital expenditures for 2017, 2016, and 2015:

	2017	2016	2015
Existing stores	40%	35%	45%
Total expansion	35%	40%	30%
Corporate programs	20%	20%	20%
Existing distribution network	5%	5%	5%

Our 2018 capital expenditures forecast is approximately $1.7 billion. The increase in our forecast, relative to historical capital expenditures, is primarily attributable to incremental cash flow benefit related to the enactment of the Tax Cuts and Jobs Act of 2017. The following table provides the allocation of our fiscal 2018 capital expenditures forecast:

	2018
Strategic initiatives, including information technology and supply chain	45 %
Existing store investments, including store equipment, technology enhancements, and remerchandising	40 %
New stores	15 %

Business Acquisitions

We continue to seek compelling strategic investment opportunities to further expand our home improvement reach. In 2017, we paid $509 million, net of cash received, to acquire Maintenance Supply Headquarters, which is expected to enable us to deepen and broaden our relationship with the Pro customer and better serve their needs. In 2016, we used $2.3 billion, net of cash received, to acquire RONA, which enabled us to accelerate our growth strategy in the Canadian home improvement market. See Note 2 to the consolidated financial statements included herein for additional information regarding our business acquisitions.

Cash Flows Used in Financing Activities

(In millions)	2017	2016	2015
Net cash used in financing activities	$ (3,607)	$ (2,092)	$ (3,493)

Net cash used in financing activities primarily consist of transactions related to our short-term borrowings, long-term debt, share repurchases, and cash dividend payments.

Short-term Borrowing Facilities

We have an unsecured revolving credit agreement with a syndicate of banks (the 2016 Credit Facility) which provides for borrowings up to $1.75 billion and supports our commercial paper program. The amount available to be drawn under the 2016 Credit Facility is reduced by the amount of borrowings under our commercial paper program. All of our short-term borrowings in 2017, 2016, and 2015 were under the commercial paper program. Our commercial paper program, along with cash flows generated from operations, is typically utilized during our fourth fiscal quarter to build inventory in anticipation of the spring selling season. The following table includes additional information related to our short-term borrowings for 2017, 2016, and 2015:

(In millions, except for interest rate data)	2017	2016	2015
Amount outstanding at year-end	$ 1,137	$ 510	$ 43
Maximum amount outstanding at any month-end	$ 1,137	$ 658	$ 91
Weighted-average interest rate of short-term borrowings outstanding	1.85 %	1.01 %	0.60 %

The 2016 Credit Facility expires in November 2021 and contains customary representations, warranties, and covenants. We were in compliance with those covenants at February 2, 2018. Subject to obtaining commitments from the lenders and satisfying other conditions specified in the 2016 Credit Facility, the Company may increase the aggregate availability by an additional $500 million. See Note 6 to the consolidated financial statements included herein for additional information regarding our short-term borrowings.

Long-term Debt

The following table includes additional information related to the Company’s long-term debt for 2017, 2016, and 2015:

(In millions)	2017	2016	2015

Net proceeds from issuance of long-term debt	$	2,968	$	3,267	$	1,718
Repayment of long-term debt	$	(2,849)	$	(1,173)	$	(552)

In 2017, we paid approximately $2.0 billion to purchase $1.6 billion of our higher coupon notes prior to maturity in connection with a cash tender offer. We issued $3.0 billion of unsecured notes to fund the tender offer, finance current year maturities, and for other general corporate purposes, which included share repurchases, capital expenditures, strategic investments, and working capital needs.

In 2016, we issued $3.3 billion of unsecured notes to fund the acquisition of RONA, finance current year maturities, and for other general corporate purposes, which included share repurchases, capital expenditures, strategic investments, and working capital needs.

In 2015, we issued $1.75 billion of unsecured notes to finance current year maturities, and for other general corporate purposes, which included share repurchases, capital expenditures, strategic investments, and working capital needs.

Our ratio of debt to capital (equity plus debt) was 74.3% and 70.9% as of February 2, 2018, and February 3, 2017, respectively.

See Note 7 to the consolidated financial statements included herein for additional information related to our long-term debt.

Share Repurchases

We have an ongoing share repurchase program, authorized by the Company's Board of Directors, that is executed through purchases made from time to time either in the open market or through private off-market transactions. We also withhold shares from employees to satisfy tax withholding liabilities. Shares repurchased are retired and returned to authorized and unissued status. The following table provides, on a settlement date basis, the total number of shares repurchased, average price paid per share, and the total amount paid for share repurchases for 2017, 2016, and 2015:

(In millions, except per share data)		**2017**		**2016**		**2015**
Total amount paid for share repurchases	$	3,192	$	3,595	$	3,925
Total number of shares repurchased		39.9		48.0		55.1
Average price paid per share	$	80.01	$	74.89	$	71.21

As of February 2, 2018, we had $6.9 billion remaining under our share repurchase program with no expiration date. We expect to repurchase shares totaling $2.5 billion in 2018. See Note 8 to the consolidated financial statements included herein for additional information regarding share repurchases.

Dividends

In 2017, we increased our quarterly dividend payment 17% to $0.41 per share. Our dividend payment dates are established such that dividends are paid in the quarter immediately following the quarter in which they are declared. The following table provides additional information related to our dividend payments for 2017, 2016, and 2015:

(In millions, except per share data and percentage data)		**2017**		**2016**		**2015**
Total cash dividend payments	$	1,288	$	1,121	$	957
Dividends paid per share	$	1.52	$	1.26	$	1.02
Dividend payout ratio		37%		36%		38%

Capital Resources

We expect to continue to have access to the capital markets on both short-term and long-term bases when needed for liquidity purposes by issuing commercial paper or new long-term debt. The availability and the borrowing costs of these funds could be adversely affected, however, by a downgrade of our debt ratings or a deterioration of certain financial ratios. The table below reflects our debt ratings by Standard & Poor's (S&P) and Moody's as of April 2, 2018, which we are disclosing to enhance understanding of our sources of liquidity and the effect of our ratings on our cost of funds. Our debt ratings have enabled, and should continue to enable, us to refinance our debt as it becomes due at favorable rates in capital markets. Although we currently do not expect a downgrade in our debt ratings, our commercial paper and senior debt ratings may be subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating.

Debt Ratings	**S&P**	**Moody's**
Commercial Paper	A-2	P-2
Senior Debt	A-	A3
Outlook	**Stable**	**Stable**

There are no provisions in any agreements that would require early cash settlement of existing debt or leases as a result of a downgrade in our debt rating or a decrease in our stock price. In addition, we do not believe it will be necessary to repatriate significant cash and cash equivalents and short-term investments held in foreign affiliates to fund domestic operations.

OFF-BALANCE SHEET ARRANGEMENTS

Other than in connection with executing operating leases, we do not have any off-balance sheet financing that has, or is reasonably likely to have, a current or future material effect on our financial condition, cash flows, results of operations, liquidity, capital expenditures or capital resources.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes our significant contractual obligations at February 2, 2018:

	Payments Due by Period				
Contractual Obligations (in millions)	**Total**	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Long-term debt (principal amounts, excluding discount and debt issuance costs)	$ 15,114	$ 251	$ 1,551	$ 1,790	$ 11,522
Long-term debt (interest payments)	9,283	577	1,109	1,005	6,592
Capitalized lease obligations [1, 2]	1,491	108	254	178	951
Operating leases [1]	5,837	666	1,199	1,002	2,970
Purchase obligations [3]	1,069	537	478	54	—
Total contractual obligations	**$ 32,794**	**$ 2,139**	**$ 4,591**	**$ 4,029**	**$ 22,035**

	Amount of Commitment Expiration by Period				
Commercial Commitments (in millions)	**Total**	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Letters of Credit [4]	$ 63	$ 63	$ —	$ —	$ —

[1] *Amounts do not include taxes, common area maintenance, insurance, or contingent rent because these amounts have historically been insignificant.*

[2] *Amounts include imputed interest and residual values.*

[3]

Purchase obligations include agreements to purchase goods or services that are enforceable, are legally binding, and specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase obligations include firm commitments related to certain marketing and information technology programs, as well as purchases of merchandise inventory.

4 *Letters of credit are issued primarily for insurance and construction contracts.*

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated financial statements and notes to consolidated financial statements presented in this Annual Report requires us to make estimates that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosures of contingent assets and liabilities. We base these estimates on historical results and various other assumptions believed to be reasonable, all of which form the basis for making estimates concerning the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Our significant accounting policies are described in Note 1 to the consolidated financial statements. We believe that the following accounting policies affect the most significant estimates and management judgments used in preparing the consolidated financial statements.

Merchandise Inventory

Description
We record an obsolete inventory reserve for the anticipated loss associated with selling inventories below cost. This reserve is based on our current knowledge with respect to inventory levels, sales trends and historical experience. During 2017, our reserve increased approximately $18 million to $77 million as of February 2, 2018.

We also record an inventory reserve for the estimated shrinkage between physical inventories. This reserve is based primarily on actual shrinkage results from previous physical inventories. During 2017, the inventory shrinkage reserve increased approximately $23 million to $212 million as of February 2, 2018.

In addition, we receive funds from vendors in the normal course of business, principally as a result of purchase volumes, sales, early payments or promotions of vendors' products. Generally, these vendor funds do not represent the reimbursement of specific, incremental and identifiable costs that we incurred to sell the vendor's product. Therefore, we treat these funds as a reduction in the cost of inventory as the amounts are accrued, and recognize these funds as a reduction of cost of sales when the inventory is sold. Funds that are determined to be reimbursements of specific, incremental and identifiable costs incurred to sell vendors' products are recorded as an offset to the related expense.

Judgments and uncertainties involved in the estimate
We do not believe that our merchandise inventories are subject to significant risk of obsolescence in the near term, and we have the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns or a deterioration in product quality could result in the need for additional reserves. Likewise, changes in the estimated shrink reserve may be necessary, based on the timing and results of physical inventories. We also apply judgment in the determination of levels of obsolete inventory and assumptions about net realizable value.

For vendor funds, we develop accrual rates based on the provisions of the agreements in place. Due to the complexity and diversity of the individual vendor agreements, we perform analyses and review historical purchase trends and volumes throughout the year, adjust accrual rates as appropriate and confirm actual amounts with select vendors to ensure the amounts earned are appropriately recorded. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met.

Effect if actual results differ from assumptions
We have not made any material changes in the methodology used to establish our inventory valuation or the related reserves for obsolete inventory or inventory shrinkage during the past three fiscal years. We believe that we have sufficient current and historical knowledge to record reasonable estimates for both of these inventory reserves. However, it is possible that actual results could differ from recorded reserves. A 10% change in either the amount of products considered obsolete or the weighted average estimated loss rate used in the calculation of our obsolete inventory reserve would have affected net earnings by approximately $4 million for 2017. A 10% change in the estimated shrinkage rate included in the calculation of our inventory shrinkage reserve would have affected net earnings by approximately $13 million for 2017.

We have not made any material changes in the methodology used to recognize vendor funds during the past three fiscal years. If actual results are not consistent with the assumptions and estimates used, we could be exposed to additional adjustments that could positively or negatively impact gross margin and inventory. However, substantially all receivables associated with these activities do not require subjective long-term estimates because they are collected within the following fiscal year. Adjustments to gross margin and inventory in the following fiscal year have historically not been material.

Long-Lived Asset Impairment

Description
We review the carrying amounts of locations whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. When evaluating locations for impairment, our asset group is at an individual location level, as that is the lowest level for which cash flows are identifiable. Cash flows for individual locations do not include an allocation of corporate overhead.

We evaluate locations for triggering events relating to long-lived asset impairment on a quarterly basis to determine when a location's asset carrying values may not be recoverable. For operating locations, our primary indicator that asset carrying values may not be recoverable is consistently negative cash flow for a 12-month period for those locations that have been open in the same location for a sufficient period of time to allow for meaningful analysis of ongoing operating results. Management also monitors other factors when evaluating operating locations for impairment, including individual locations' execution of their operating plans and local market conditions, including incursion, which is the opening of either other Lowe's locations or those of a direct competitor within the same market. We also consider there to be a triggering event when there is a current expectation that it is more likely than not that a given location will be closed significantly before the end of its previously estimated useful life.

A potential impairment has occurred if projected future undiscounted cash flows expected to result from the use and eventual disposition of the location's assets are less than the carrying amount of the assets. When determining the stream of projected future cash flows associated with an individual operating location, management makes assumptions, incorporating local market conditions, about key store variables including sales growth rates, gross margin and controllable expenses, such as store payroll and occupancy expense, as well as asset residual values or lease rates. An impairment loss is recognized when the carrying amount of the operating location is not recoverable and exceeds its fair value.

We use an income approach to determine the fair value of our individual operating locations, which requires discounting projected future cash flows. This involves making assumptions regarding both a location's future cash flows, as described above, and an appropriate discount rate to determine the present value of those future cash flows. We discount our cash flow estimates at a rate commensurate with the risk that selected market participants would assign to the cash flows. The selected market participants represent a group of other retailers with a market footprint similar in size to ours.

Judgments and uncertainties involved in the estimate
Our impairment evaluations for long-lived assets require us to apply judgment in determining whether a triggering event has occurred, including the evaluation of whether it is more likely than not that a location will be closed significantly before the end of its previously estimated useful life. Our impairment loss calculations require us to apply judgment in estimating expected future cash flows, including estimated sales, margin, and controllable expenses, assumptions about market performance for operating locations, and estimated selling prices or lease rates for locations identified for closure. We also apply judgment in estimating asset fair values, including the selection of an appropriate discount rate for fair values determined using an income approach.

Effect if actual results differ from assumptions
A 10% reduction in projected sales used to estimate future cash flows for operating locations that experienced a triggering event would not have had a significant impact to impairment losses recognized during 2017.

We have not made any material changes in the methodology used to estimate the future cash flows of operating locations or locations identified for closure during the past three fiscal years. If the actual results are not consistent with the assumptions and judgments we have made in determining whether it is more likely than not that a location will be closed significantly before the end of its useful life or in estimating future cash flows and determining asset fair values, our actual impairment losses could vary positively or negatively from our estimated impairment losses.

Goodwill

Description
Goodwill is not amortized but is evaluated for impairment at least annually on the first day of the fourth quarter or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount may not be recoverable. We test for goodwill impairment at the reporting unit level, which is one level below the operating segment level. The evaluation begins with a qualitative assessment to determine whether a quantitative impairment

test is necessary. If, after assessing qualitative factors, we determine it is more likely than not that the fair value of the reporting unit is less than the carrying amount, then the two-step goodwill impairment test is necessary.

The first step of the goodwill impairment test used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. Fair value represents the price a market participant would be willing to pay in a potential sale of the reporting unit and is based on discounted future cash flows. If the fair value exceeds carrying value, then no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, a second step is required to measure possible goodwill impairment loss. The second step includes hypothetically valuing the tangible and intangible assets and liabilities of the reporting unit as if the reporting unit had been acquired in a business combination. Then, the implied fair value of the reporting unit's goodwill is compared to the carrying value of that goodwill. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of the goodwill, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying value.

Judgments and uncertainties involved in the estimate
The determination of the fair value of the reporting units requires us to make significant estimates and assumptions, including store growth rates, existing store sales growth rates, forecasting expenses and selecting appropriate discount rates.

Effect if actual results differ from assumptions
The carrying value of goodwill as of February 2, 2018, was $1.3 billion. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to test for impairment losses on goodwill. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to an impairment charge that could be material.

Self-Insurance

Description
We are self-insured for certain losses relating to workers' compensation, automobile, general and product liability, extended protection plan, and certain medical and dental claims. Our self-insured retention or deductible, as applicable, is limited to $2 million per occurrence involving workers' compensation, $5 million per occurrence involving general or product liability, and $10 million per occurrence involving automobile. We do not have any insurance coverage for self-insured extended protection plan or medical and dental claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon our estimates of the discounted ultimate cost for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. During 2017, our self-insurance liability increased approximately $59 million to $890 million as of February 2, 2018.

Judgments and uncertainties involved in the estimate
These estimates are subject to changes in the regulatory environment, utilized discount rate, projected exposures including payroll, sales and vehicle units, as well as the frequency, lag and severity of claims.

Effect if actual results differ from assumptions
We have not made any material changes in the methodology used to establish our self-insurance liability during the past three fiscal years. Although we believe that we have the ability to reasonably estimate losses related to claims, it is possible that actual results could differ from recorded self-insurance liabilities. A 10% change in our self-insurance liability would have affected net earnings by approximately $56 million for 2017. A 100 basis point change in our discount rate would have affected net earnings by approximately $19 million for 2017.

Revenue Recognition

Description
See Note 1 to the consolidated financial statements for a discussion of our revenue recognition policies. The following accounting estimates relating to revenue recognition require management to make assumptions and apply judgment regarding the effects of future events that cannot be determined with certainty.

We sell separately-priced extended protection plan contracts under a Lowe's-branded program for which the Company is ultimately self-insured. The Company recognizes revenues from extended protection plan sales on a straight-line basis over the respective contract term. Extended protection plan contract terms primarily range from one to four years from the date of purchase or the end of the manufacturer's warranty, as applicable. The Company consistently groups and evaluates extended protection plan contracts based on the characteristics of the underlying products and the coverage provided in order to monitor for expected losses. A loss on the overall contract would be recognized if the expected costs of performing services under the contracts exceeded the amount of unamortized acquisition costs and related deferred revenue associated with the contracts.

Deferred revenues associated with the extended protection plan contracts increased $40 million to $803 million as of February 2, 2018.

We defer revenue and cost of sales associated with settled transactions for which customers have not yet taken possession of merchandise or for which installation has not yet been completed. Revenue is deferred based on the actual amounts received. We use historical gross margin rates to estimate the adjustment to cost of sales for these transactions. During 2017, deferred revenues associated with these transactions increased $76 million to $831 million as of February 2, 2018.

Judgments and uncertainties involved in the estimate
For extended protection plans, there is judgment inherent in our evaluation of expected losses as a result of our methodology for grouping and evaluating extended protection plan contracts and from the actuarial determination of the estimated cost of the contracts. There is also judgment inherent in our determination of the recognition pattern of costs of performing services under these contracts.

For the deferral of revenue and cost of sales associated with transactions for which customers have not yet taken possession of merchandise or for which installation has not yet been completed, there is judgment inherent in our estimates of gross margin rates.

Effect if actual results differ from assumptions
We have not made any material changes in the methodology used to recognize revenue on our extended protection plan contracts during the past three fiscal years. We currently do not anticipate incurring any overall contract losses on our extended protection plan contracts. Although we believe that we have the ability to adequately monitor and estimate expected losses under the extended protection plan contracts, it is possible that actual results could differ from our estimates. In addition, if future evidence indicates that the costs of performing services under these contracts are incurred on other than a straight-line basis, the timing of revenue recognition under these contracts could change. A 10% change in the amount of revenue recognized in 2017 under these contracts would have affected net earnings by approximately $23 million.

We have not made any material changes in the methodology used to reverse net sales and cost of sales related to amounts received for which customers have not yet taken possession of merchandise or for which installation has not yet been completed. We believe we have sufficient current and historical knowledge to record reasonable estimates related to the impact to cost of sales for these transactions. However, if actual results are not consistent with our estimates or assumptions, we may incur additional income or expense. A 10% change in the estimate of the gross margin rates applied to these transactions would have affected net earnings by approximately $12 million in 2017.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

We speak throughout this Annual Report in forward-looking statements about our future, but particularly in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. The words “believe,” “expect,” “will,” “should,” “suggest,” and other similar expressions are intended to identify those forward-looking statements. While we believe our expectations are reasonable, they are not guarantees of future performance. Our actual results could differ materially from our expectations.

For a detailed description of the risks and uncertainties that we are exposed to, you should read Item 1A, “Risk Factors” included elsewhere in this Annual Report. All forward-looking statements speak only as of the date of this Annual Report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section and in Item 1A, “Risk Factors” included elsewhere in this Annual Report. We do not undertake any obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this Annual Report.

Item 7A - Quantitative and Qualitative Disclosures about Market Risk

In addition to the risks inherent in our operations, we are exposed to certain market risks, including changes in interest rates, commodity prices and foreign currency exchange rates.

Interest Rate Risk

Fluctuations in interest rates do not have a material impact on our financial condition and results of operations because our long-term debt is carried at amortized cost and consists primarily of fixed-rate instruments. Therefore, providing quantitative information about interest rate risk is not meaningful for our financial instruments.

Commodity Price Risk

We purchase certain commodity products that are subject to price volatility caused by factors beyond our control. We believe that the price volatility of these products is partially mitigated by our ability to adjust selling prices. The selling prices of these commodity products are influenced, in part, by the market price we pay, which is determined by industry supply and demand.

Foreign Currency Exchange Rate Risk

Although we have international operating entities, our exposure to foreign currency rate fluctuations is not material to our financial condition and result of operations.

Item 8 - Financial Statements and Supplementary Data

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Lowe's Companies, Inc. and its subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting (Internal Control) as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Our Internal Control was designed to provide reasonable assurance to our management and the Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the reliability of financial reporting and financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness may vary over time.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our Internal Control as of February 2, 2018. In evaluating our Internal Control, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on our management's assessment, we have concluded that, as of February 2, 2018, our Internal Control is effective.

Under guidelines established by the SEC, companies are permitted to exclude acquisitions from their first assessment of internal control over financial reporting following the date of acquisition. Management's assessment of the effectiveness of the Company's internal control over financial reporting excluded Maintenance Supply Headquarters, a wholly owned subsidiary of Lowe's Companies Inc. that consisted of the net assets purchased from Maintenance Supply Headquarters in June 2017. Maintenance Supply Headquarters represented 1.5% and 0.3% of the Company's consolidated total assets and consolidated net sales, respectively, as of and for the year ended February 2, 2018. This acquisition is more fully discussed in Note 2 to our Consolidated Financial Statements for fiscal year 2017.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the financial statements contained in this Annual Report, was engaged to audit our Internal Control. Their report appears on page 39.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Lowe’s Companies, Inc. and subsidiaries (the “Company”) as of February 2, 2018 and February 3, 2017, the related consolidated statements of earnings, comprehensive income, shareholders’ equity, and cash flows for each of the three fiscal years in the period ended February 2, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of February 2, 2018 and February 3, 2017, and the results of its operations and its cash flows for each of the three fiscal years in the period ended February 2, 2018 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 2, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 2, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina
April 2, 2018

We have served as the Company's auditor since 1962.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Lowe’s Companies, Inc. and subsidiaries (the “Company”) as of February 2, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 2, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the fiscal year ended February 2, 2018 of the Company and our report dated April 2, 2018, expressed an unqualified opinion on those financial statements.

As described in Management’s Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Maintenance Supply Headquarters, which was acquired on June 23, 2017 and whose financial statements constitute 1.5% and 0.3% of the Company’s consolidated total assets and consolidated net sales, respectively, as of and for the fiscal year ended February 2, 2018. Accordingly, our audit did not include the internal control over financial reporting at Maintenance Supply Headquarters.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina
April 2, 2018

Lowe's Companies, Inc.
Consolidated Statements of Earnings
(In millions, except per share and percentage data)

Fiscal years ended on	February 2, 2018	% Sales	February 3, 2017	% Sales	January 29, 2016	% Sales
Net sales	**$ 68,619**	**100.00 %**	**$ 65,017**	**100.00 %**	**$ 59,074**	**100.00 %**
Cost of sales	45,210	65.89	42,553	65.45	38,504	65.18
Gross margin	**23,409**	**34.11**	**22,464**	**34.55**	**20,570**	**34.82**
Expenses:						
Selling, general and administrative	15,376	22.40	15,129	23.27	14,105	23.88
Depreciation and amortization	1,447	2.11	1,489	2.29	1,494	2.53
Operating income	**6,586**	**9.60**	**5,846**	**8.99**	**4,971**	**8.41**
Interest - net	633	0.92	645	0.99	552	0.93
Loss on extinguishment of debt	464	0.68	—	—	—	—
Pre-tax earnings	**5,489**	**8.00**	**5,201**	**8.00**	**4,419**	**7.48**
Income tax provision	2,042	2.98	2,108	3.24	1,873	3.17
Net earnings	**$ 3,447**	**5.02 %**	**$ 3,093**	**4.76 %**	**$ 2,546**	**4.31 %**
Basic earnings per common share	**$ 4.09**		**$ 3.48**		**$ 2.73**	
Diluted earnings per common share	**$ 4.09**		**$ 3.47**		**$ 2.73**	
Cash dividends per share	**$ 1.58**		**$ 1.33**		**$ 1.07**	

Lowe's Companies, Inc.
Consolidated Statements of Comprehensive Income
(In millions, except percentage data)

Fiscal years ended on	February 2, 2018	% Sales	February 3, 2017	% Sales	January 29, 2016	% Sales
Net earnings	**$ 3,447**	**5.02 %**	**$ 3,093**	**4.76 %**	**$ 2,546**	**4.31 %**
Foreign currency translation adjustments - net of tax	251	0.37	154	0.23	(291)	(0.49)
Other comprehensive income/(loss)	**251**	**0.37**	**154**	**0.23**	**(291)**	**(0.49)**
Comprehensive income	**$ 3,698**	**5.39 %**	**$ 3,247**	**4.99 %**	**$ 2,255**	**3.82 %**

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc.
Consolidated Balance Sheets
(In millions, except par value)

		February 2, 2018	February 3, 2017
Assets			
Current assets:			
Cash and cash equivalents		$ 588	$ 558
Short-term investments		102	100
Merchandise inventory - net		11,393	10,458
Other current assets		689	884
Total current assets		**12,772**	**12,000**
Property, less accumulated depreciation		19,721	19,949
Long-term investments		408	366
Deferred income taxes - net		168	222
Goodwill		1,307	1,082
Other assets		915	789
Total assets		**$ 35,291**	**$ 34,408**
Liabilities and shareholders' equity			
Current liabilities:			
Short-term borrowings		$ 1,137	$ 510
Current maturities of long-term debt		294	795
Accounts payable		6,590	6,651
Accrued compensation and employee benefits		747	790
Deferred revenue		1,378	1,253
Other current liabilities		1,950	1,975
Total current liabilities		**12,096**	**11,974**
Long-term debt, excluding current maturities		15,564	14,394
Deferred revenue - extended protection plans		803	763
Other liabilities		955	843
Total liabilities		**29,418**	**27,974**
Commitments and contingencies			
Shareholders' equity:			
Preferred stock - $5 par value, none issued		—	—
Common stock - $.50 par value;			
Shares issued and outstanding			
February 2, 2018	830		
February 3, 2017	866	415	433
Capital in excess of par value		22	—
Retained earnings		5,425	6,241
Accumulated other comprehensive income/(loss)		11	(240)
Total shareholders' equity		**5,873**	**6,434**
Total liabilities and shareholders' equity		**$ 35,291**	**$ 34,408**

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc.
Consolidated Statements of Shareholders' Equity
(In millions)

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income/ (Loss)	Total Lowe's Companies, Inc. Shareholders' Equity	Noncontrolling Interest	Total Equity
Balance January 30, 2015	**960**	**$ 480**	**$ —**	**$9,591**	**$ (103)**	**$ 9,968**	**$ —**	**$ 9,968**
Net earnings				2,546		2,546		2,546
Other comprehensive loss					(291)	(291)		(291)
Tax effect of non-qualified stock options exercised and restricted stock vested			61			61		61
Cash dividends declared, $1.07 per share				(991)		(991)		(991)
Share-based payment expense			112			112		112
Repurchase of common stock	(54)	(27)	(298)	(3,553)		(3,878)		(3,878)
Issuance of common stock under share-based payment plans	4	2	125			127		127
Balance January 29, 2016	**910**	**$ 455**	**$ —**	**$7,593**	**$ (394)**	**$ 7,654**	**$ —**	**$ 7,654**
Net earnings				3,091		3,091	2	3,093
Other comprehensive income					154	154		154
Tax effect of non-qualified stock options exercised and restricted stock vested			57			57		57
Cash dividends declared, $1.33 per share				(1,169)		(1,169)		(1,169)
Share-based payment expense			104			104		104
Repurchase of common stock	(48)	(24)	(279)	(3,274)		(3,577)		(3,577)
Issuance of common stock under share-based payment plans	4	2	136			138		138
Noncontrolling interest resulting from acquisition						—	109	109
Dividends paid to noncontrolling interest holders						—	(2)	(2)
Purchase of noncontrolling interest			(18)			(18)	(109)	(127)
Balance February 3, 2017	**866**	**$ 433**	**$ —**	**$6,241**	**$ (240)**	**$ 6,434**	**$ —**	**$ 6,434**
Net earnings				3,447		3,447		3,447
Other comprehensive income					251	251		251
Cash dividends declared, $1.58 per share				(1,324)		(1,324)		(1,324)
Share-based payment expense			99			99		99
Repurchase of common stock	(40)	(20)	(215)	(2,939)		(3,174)		(3,174)
Issuance of common stock under share-based payment plans	4	2	138			140		140
Balance February 2, 2018	**830**	**$ 415**	**$ 22**	**$5,425**	**$ 11**	**$ 5,873**	**$ —**	**$ 5,873**

See accompanying notes to consolidated financial statements.

Table of Contents

Lowe's Companies, Inc.
Consolidated Statements of Cash Flows
(In millions)

Fiscal years ended on	February 2, 2018	February 3, 2017	January 29, 2016
Cash flows from operating activities:			
Net earnings	$ 3,447	$ 3,093	$ 2,546
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	1,540	1,590	1,587
Deferred income taxes	53	28	(68)
Loss on property and other assets - net	40	143	30
Loss on extinguishment of debt	464	—	—
(Gain) loss on cost method and equity method investments	(82)	302	594
Share-based payment expense	99	90	117
Changes in operating assets and liabilities:			
Merchandise inventory – net	(791)	(178)	(582)
Other operating assets	250	(183)	(34)
Accounts payable	(92)	653	524
Other operating liabilities	137	79	70
Net cash provided by operating activities	**5,065**	**5,617**	**4,784**
Cash flows from investing activities:			
Purchases of investments	(981)	(1,192)	(934)
Proceeds from sale/maturity of investments	1,114	1,254	884
Capital expenditures	(1,123)	(1,167)	(1,197)
Contributions to equity method investments – net	—	—	(125)
Proceeds from sale of property and other long-term assets	45	37	57
Purchases of derivative instruments	—	(103)	—
Proceeds from settlement of derivative instruments	—	179	—
Acquisition of business - net	(509)	(2,356)	—
Other – net	13	(13)	(28)
Net cash used in investing activities	**(1,441)**	**(3,361)**	**(1,343)**
Cash flows from financing activities:			
Net change in short-term borrowings	625	466	43
Net proceeds from issuance of long-term debt	2,968	3,267	1,718
Repayment of long-term debt	(2,849)	(1,173)	(552)
Proceeds from issuance of common stock under share-based payment plans	139	139	125
Cash dividend payments	(1,288)	(1,121)	(957)
Repurchase of common stock	(3,192)	(3,595)	(3,925)
Other – net	(10)	(75)	55
Net cash used in financing activities	**(3,607)**	**(2,092)**	**(3,493)**
Effect of exchange rate changes on cash	**13**	**(11)**	**(9)**
Net increase/(decrease) in cash and cash equivalents	30	153	(61)
Cash and cash equivalents, beginning of year	558	405	466
Cash and cash equivalents, end of year	**$ 588**	**$ 558**	**$ 405**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 2, 2018, FEBRUARY 3, 2017 AND JANUARY 29, 2016

NOTE 1: Summary of Significant Accounting Policies

Lowe's Companies, Inc. and subsidiaries (the Company) is the world's second-largest home improvement retailer and operated 2,152 stores in the United States, Canada, and Mexico at February 2, 2018. Below are those accounting policies considered by the Company to be significant.

Fiscal Year - The Company's fiscal year ends on the Friday nearest the end of January. Fiscal years 2017 and 2015 each contained 52 weeks and fiscal 2016 contained 53 weeks. All references herein for the years 2017, 2016, and 2015 represent the fiscal years ended February 2, 2018, February 3, 2017, and January 29, 2016, respectively.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned or controlled operating subsidiaries. All intercompany accounts and transactions have been eliminated.

Foreign Currency - The functional currencies of the Company's international subsidiaries are generally the local currencies of the countries in which the subsidiaries are located. Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations and cash flows are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is included as a component of shareholders' equity in accumulated other comprehensive income/loss. Gains and losses from foreign currency transactions are included in selling, general and administrative (SG&A) expense.

Use of Estimates - The preparation of the Company's financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosures of contingent assets and liabilities. The Company bases these estimates on historical results and various other assumptions believed to be reasonable, all of which form the basis for making estimates concerning the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased. Cash and cash equivalents are carried at amortized cost on the consolidated balance sheets. The majority of payments due from financial institutions for the settlement of credit card and debit card transactions process within two business days and are, therefore, classified as cash and cash equivalents.

Investments - Investments generally consist of money market funds, municipal obligations, certificates of deposit, and municipal floating rate obligations, all of which are classified as available-for-sale. Available-for-sale securities are recorded at fair value, and unrealized gains and losses are recorded, net of tax, as a component of accumulated other comprehensive income/loss. Gross unrealized gains and losses were insignificant at February 2, 2018 and February 3, 2017.

The proceeds from sales of available-for-sale securities were $523 million, $505 million, and $394 million for 2017, 2016, and 2015, respectively. Gross realized gains and losses on the sale of available-for-sale securities were not significant for any of the periods presented.

Investments with a stated maturity date of one year or less from the balance sheet date or that are expected to be used in current operations are classified as short-term investments. All other investments are classified as long-term. Investments classified as long-term at February 2, 2018, will mature in one to 37 years, based on stated maturity dates.

The Company classifies as investments restricted balances primarily pledged as collateral for the Company's extended protection plan program. Restricted balances included in short-term investments were $86 million at February 2, 2018, and $81 million at February 3, 2017. Restricted balances included in long-term investments were $381 million at February 2, 2018, and $354 million at February 3, 2017.

Merchandise Inventory - The majority of the Company's inventory is stated at the lower of cost and net realizable value using the first-in, first-out method of inventory accounting. Inventory for certain subsidiaries representing approximately 10% and 8% of the consolidated inventory balances as of February 2, 2018 and February 3, 2017, respectively, are stated at lower of cost and net realizable value using other inventory methods, including the weighted average cost method and the retail inventory method. The cost of inventory includes certain costs associated with the preparation of inventory for resale, including distribution center costs, and is net of vendor funds.

The Company records an inventory reserve for the anticipated loss associated with selling inventories below cost. This reserve is based on management's current knowledge with respect to inventory levels, sales trends, and historical experience. Management does not believe the Company's merchandise inventories are subject to significant risk of obsolescence in the near term, and management has the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns could result in the need for additional reserves. The Company also records an inventory reserve for the estimated shrinkage between physical inventories. This reserve is based primarily on actual shrink results from previous physical inventories. Changes in the estimated shrink reserve are made based on the timing and results of physical inventories.

The Company receives funds from vendors in the normal course of business, principally as a result of purchase volumes, sales, early payments, or promotions of vendors' products. Generally, these vendor funds do not represent the reimbursement of specific, incremental, and identifiable costs incurred by the Company to sell the vendor's product. Therefore, the Company treats these funds as a reduction in the cost of inventory, and are recognized as a reduction of cost of sales when the inventory is sold. Funds that are determined to be reimbursements of specific, incremental, and identifiable costs incurred to sell vendors' products are recorded as an offset to the related expense. The Company develops accrual rates for vendor funds based on the provisions of the agreements in place. Due to the complexity and diversity of the individual vendor agreements, the Company performs analyses and reviews historical trends throughout the year and confirms actual amounts with select vendors to ensure the amounts earned are appropriately recorded. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected annual purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met.

Credit Programs - The Company has an agreement with Synchrony Bank (Synchrony), formerly GE Capital Retail, under which Synchrony purchases at face value commercial business accounts receivable originated by the Company and services these accounts. This agreement expires in December 2023, unless terminated sooner by the parties. The Company primarily accounts for these transfers as sales of the accounts receivable. When the Company transfers its commercial business accounts receivable, it retains certain interests in those receivables, including the funding of a loss reserve and its obligation related to Synchrony's ongoing servicing of the receivables sold. Any gain or loss on the sale is determined based on the previous carrying amounts of the transferred assets allocated at fair value between the receivables sold and the interests retained. Fair value is based on the present value of expected future cash flows, taking into account the key assumptions of anticipated credit losses, payment rates, late fee rates, Synchrony's servicing costs, and the discount rate commensurate with the uncertainty involved. Due to the short-term nature of the receivables sold, changes to the key assumptions would not materially impact the recorded gain or loss on the sales of receivables or the fair value of the retained interests in the receivables.

Total commercial business accounts receivable sold to Synchrony were $3.1 billion in 2017, $2.8 billion in 2016, and $2.6 billion in 2015. The Company recognized losses of $39 million in 2017, $32 million in 2016, and $36 million in 2015 on these receivable sales as SG&A expense, which primarily relates to the fair value of obligations related to servicing costs that are remitted to Synchrony monthly. At February 2, 2018 and February 3, 2017, the fair value of the retained interests was determined based on the present value of expected future cash flows and was insignificant.

Sales generated through the Company's proprietary credit cards are not reflected in receivables. Under an agreement with Synchrony, credit is extended directly to customers by Synchrony. All credit program-related services are performed and controlled directly by Synchrony. The Company has the option, but no obligation, to purchase the receivables at the end of the agreement in December 2023. Tender costs, including amounts associated with accepting the Company's proprietary credit cards, are included in SG&A expense in the consolidated statements of earnings.

The total portfolio of receivables held by Synchrony, including both receivables originated by Synchrony from the Company's proprietary credit cards and commercial business accounts receivable originated by the Company and sold to Synchrony, approximated $10.2 billion at February 2, 2018, and $9.6 billion at February 3, 2017.

Property and Depreciation - Property is recorded at cost. Costs associated with major additions are capitalized and depreciated. Capital assets are expected to yield future benefits and have original useful lives which exceed one year. The total cost of a capital asset generally includes all applicable sales taxes, delivery costs, installation costs, and other appropriate costs incurred by the Company, including interest in the case of self-constructed assets. Upon disposal, the cost of properties and related accumulated depreciation is removed from the accounts, with gains and losses reflected in SG&A expense in the consolidated statements of earnings.

Property consists of land, buildings and building improvements, equipment, and construction in progress. Buildings and building improvements includes owned buildings, as well as buildings under capital lease and leasehold improvements.

Equipment primarily includes store racking and displays, computer hardware and software, forklifts, vehicles, and other store equipment.

Depreciation is provided over the estimated useful lives of the depreciable assets. Assets are depreciated using the straight-line method. Leasehold improvements and assets under capital lease are depreciated over the shorter of their estimated useful lives or the term of the related lease, which may include one or more option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably assured. During the term of a lease, if leasehold improvements are placed in service significantly after the inception of the lease, the Company depreciates these leasehold improvements over the shorter of the useful life of the leasehold assets or a term that includes lease renewal periods deemed to be reasonably assured at the time the leasehold improvements are placed into service. The amortization of these assets is included in depreciation expense in the consolidated financial statements.

Long-Lived Asset Impairment/Exit Activities - The carrying amounts of long-lived assets are reviewed whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. A potential impairment has occurred for long-lived assets held-for-use if projected future undiscounted cash flows expected to result from the use and eventual disposition of the assets are less than the carrying amounts of the assets. An impairment loss is recorded for long-lived assets held-for-use when the carrying amount of the asset is not recoverable and exceeds its fair value.

Excess properties that are expected to be sold within the next 12 months and meet the other relevant held-for-sale criteria are classified as long-lived assets held-for-sale. Excess properties consist primarily of retail outparcels and property associated with relocated or closed locations. An impairment loss is recorded for long-lived assets held-for-sale when the carrying amount of the asset exceeds its fair value less cost to sell. A long-lived asset is not depreciated while it is classified as held-for-sale.

For long-lived assets to be abandoned, the Company considers the asset to be disposed of when it ceases to be used. Until it ceases to be used, the Company continues to classify the asset as held-for-use and tests for potential impairment accordingly. If the Company commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, its depreciable life is re-evaluated.

Impairment losses are included in SG&A expense in the consolidated statements of earnings. Fair value measurements associated with long-lived asset impairments are further described in Note 4 to the consolidated financial statements.

When locations under operating leases are closed, a liability is recognized for the fair value of future contractual obligations, including future minimum lease payments, property taxes, utilities, common area maintenance, and other ongoing expenses, net of estimated sublease income and other recoverable items. When the Company commits to an exit plan and communicates that plan to affected employees, a liability is recognized in connection with one-time employee termination benefits. Subsequent changes to the liabilities, including a change resulting from a revision to either the timing or the amount of estimated cash flows, are recognized in the period of change. Expenses associated with exit activities are included in SG&A expense in the consolidated statement of earnings. Amounts accrued for exit activities were not material for any of the periods presented.

Goodwill - Goodwill is the excess of the purchase price over the fair value of identifiable assets acquired, less liabilities assumed, in a business combination. The Company reviews goodwill for impairment at the reporting unit level, which is one level below the operating segment level. Goodwill is not amortized but is evaluated for impairment at least annually on the first day of the fourth quarter or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount may not be recoverable. The evaluation begins with a qualitative assessment to determine whether a quantitative impairment test is necessary. If, after assessing qualitative factors, we determine it is more likely than not that the fair value of the reporting unit is less than the carrying amount, then the two-step goodwill impairment test is necessary.

The first step of the goodwill impairment test used to identify potential impairment compares the fair value of a reporting unit with its carrying amount, including goodwill. Fair value represents the price a market participant would be willing to pay in a potential sale of the reporting unit and is based on discounted future cash flows. If the fair value exceeds carrying value, then no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, a second step is required to measure possible goodwill impairment loss. The second step includes hypothetically valuing the tangible and intangible assets and liabilities of the reporting unit as if the reporting unit had been acquired in a business combination. Then, the implied fair value of the reporting unit's goodwill is compared to the carrying value of that goodwill. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess, not to exceed the carrying value.

A reporting unit is an operating segment or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. Goodwill is allocated to the following reporting units: U.S. Home Improvement, Orchard Supply Hardware (Orchard), Canada - Retail, and Canada - Distribution.

The changes in the carrying amount of goodwill for 2017, 2016, and 2015 were as follows:

(In millions)	2017	2016	2015
Goodwill, balance at beginning of year	**$ 1,082**	**$ 154**	**$ 154**
Acquisitions [1]	160	1,015	—
Impairment	—	(46)	—
Other adjustments [2]	65	(41)	—
Goodwill, balance at end of year	**$ 1,307**	**$ 1,082**	**$ 154**

[1] *Goodwill recorded for 2017 acquisitions relates to Maintenance Supply Headquarters. Goodwill recorded for 2016 acquisitions primarily relates to RONA. See Note 2 for additional information regarding these acquisitions.*

[2] *Other adjustments primarily consist of changes in the goodwill balance as a result of foreign currency translation.*

During the third quarter of fiscal year 2016, due to a strategic reassessment of the Orchard operations, the Company determined potential indicators of impairment within the reporting unit existed, and quantitatively evaluated the Orchard reporting unit for impairment. The Company classified this fair value measurement as Level 3. See Note 4 for additional information on the Company's fair value measurements. The Company performed a discounted cash flow analysis for the Orchard reporting unit. The discounted cash flow model included management assumptions for expected sales growth, expansion plans, capital expenditures, and overall operational forecasts. The analysis led to the conclusion that the goodwill allocated to the Orchard reporting unit had no implied value. Accordingly, the full carrying value of $46 million relating to Orchard goodwill was impaired during the third quarter of 2016.

Gross carrying amounts and cumulative goodwill impairment losses are as follows:

	February 2, 2018		February 3, 2017	
(In millions)	Gross Carrying Amount	Cumulative Impairment	Gross Carrying Amount	Cumulative Impairment
Goodwill	$ 1,354	$ (47)	$ 1,129	$ (47)

Equity Method Investments - The Company's investments in certain unconsolidated entities are accounted for under the equity method. The balance of these investments is included in other assets (noncurrent) in the accompanying consolidated balance sheets. The balance is increased to reflect the Company's capital contributions and equity in earnings of the investees. The balance is decreased for its equity in losses of the investees, for distributions received that are not in excess of the carrying amount of the investments, and for any other than temporary impairment losses recognized. Equity method investments were not significant as of February 2, 2018 and February 3, 2017. The Company's equity in earnings and losses of the investees are included in SG&A expense, and were not significant for any of the periods presented.

Equity method investments are evaluated for impairment whenever events or changes in circumstances indicate that a decline in value has occurred that is other than temporary. Evidence considered in this evaluation includes, but would not necessarily be limited to, the financial condition and near-term prospects of the investee, recent operating trends and forecasted performance of the investee, market conditions in the geographic area or industry in which the investee operates and the Company's strategic plans for holding the investment in relation to the period of time expected for an anticipated recovery of its carrying value. Investments that are determined to have a decline in value deemed to be other than temporary are written down to estimated fair value. The Company's other than temporary impairment losses are included in SG&A expense, and were not significant for 2017 and 2016. See Note 3 for additional information on the other than temporary impairment loss the Company recognized in 2015, related to its investment in the Australian joint venture.

Leases - For lease agreements that provide for escalating rent payments or free-rent occupancy periods, the Company recognizes rent expense on a straight-line basis over the non-cancellable lease term and option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably assured. The lease term commences on the date that the Company takes possession of or controls the physical use of the property. Deferred rent is included in other liabilities (noncurrent) on the consolidated balance sheets.

When the Company renegotiates and amends a lease to extend the non-cancellable lease term prior to the date at which it would have been required to exercise or decline a term extension option, the amendment is treated as a new lease. The new lease begins on the date the lease amendment is entered into and ends on the last date of the non-cancellable lease term, as adjusted to include any option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease amendment, to be reasonably assured. The new lease is classified as operating or capital under the authoritative guidance through use of assumptions regarding residual value, economic life, incremental borrowing rate, and fair value of the leased asset(s) as of the date of the amendment.

Accounts Payable - The Company has an agreement with a third party to provide an accounts payable tracking system which facilitates participating suppliers' ability to finance payment obligations from the Company with designated third-party financial institutions. Participating suppliers may, at their sole discretion, make offers to finance one or more payment obligations of the Company prior to their scheduled due dates at a discounted price to participating financial institutions. The Company's goal in entering into this arrangement is to capture overall supply chain savings, in the form of pricing, payment terms, or vendor funding, created by facilitating suppliers' ability to finance payment obligations at more favorable discount rates, while providing them with greater working capital flexibility.

The Company's obligations to its suppliers, including amounts due and scheduled payment dates, are not impacted by suppliers' decisions to finance amounts under this arrangement. However, the Company's right to offset balances due from suppliers against payment obligations is restricted by this arrangement for those payment obligations that have been financed by suppliers. The Company's outstanding payment obligation placed on the accounts payable tracking system were $1.6 billion as of February 2, 2018 and February 3, 2017, and participating suppliers had financed $1.1 billion and $1.0 billion, respectively, of those payment obligations to participating financial institutions.

Other Current Liabilities - Other current liabilities on the consolidated balance sheets consist of:

(In millions)	February 2, 2018	February 3, 2017
Self-insurance liabilities	$ 347	$ 327
Accrued dividends	340	304
Accrued interest	184	194
Sales tax liabilities	144	210
Accrued property taxes	109	108
Other	826	832
Total	**$ 1,950**	**$ 1,975**

Self-Insurance - The Company is self-insured for certain losses relating to workers' compensation, automobile, property, and general and product liability claims. The Company has insurance coverage to limit the exposure arising from these claims. The Company is also self-insured for certain losses relating to extended protection plan and medical and dental claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon management's estimates of the discounted ultimate cost for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. Although management believes it has the ability to reasonably estimate losses related to claims, it is possible that actual results could differ from recorded self-insurance liabilities. The total self-insurance liability, including the current and non-current portions, was $890 million and $831 million at February 2, 2018, and February 3, 2017, respectively.

The Company provides surety bonds issued by insurance companies to secure payment of workers' compensation liabilities as required in certain states where the Company is self-insured. Outstanding surety bonds relating to self-insurance were $238 million and $243 million at February 2, 2018, and February 3, 2017, respectively.

Income Taxes - The Company establishes deferred income tax assets and liabilities for temporary differences between the tax and financial accounting bases of assets and liabilities. The tax effects of such differences are reflected in the consolidated balance sheets at the enacted tax rates expected to be in effect when the differences reverse. A valuation allowance is recorded to reduce the carrying amount of deferred tax assets if it is more likely than not that all or a portion of the asset will not be realized. The tax balances and income tax expense recognized by the Company are based on management's interpretation of the tax statutes of multiple jurisdictions.

The Company establishes a liability for tax positions for which there is uncertainty as to whether or not the position will be ultimately sustained. The Company includes interest related to tax issues as part of net interest on the consolidated financial statements. The Company records any applicable penalties related to tax issues within the income tax provision.

Shareholders' Equity - The Company has a share repurchase program that is executed through purchases made from time to time either in the open market or through private market transactions. Shares purchased under the repurchase program are retired and returned to authorized and unissued status. Any excess of cost over par value is charged to additional paid-in capital to the extent that a balance is present. Once additional paid-in capital is fully depleted, remaining excess of cost over par value is charged to retained earnings.

Revenue Recognition - The Company recognizes revenues, net of sales tax, when sales transactions occur and customers take possession of the merchandise. A provision for anticipated merchandise returns is provided through a reduction of sales and cost of sales in the period that the related sales are recorded. Revenues from product installation services are recognized when the installation is completed. Deferred revenues associated with amounts received for which customers have not yet taken possession of merchandise or for which installation has not yet been completed were $831 million and $755 million at February 2, 2018, and February 3, 2017, respectively.

Revenues from stored-value cards, which include gift cards and returned merchandise credits, are deferred and recognized when the cards are redeemed. The liability associated with outstanding stored-value cards was $547 million and $498 million at February 2, 2018, and February 3, 2017, respectively, and these amounts are included in deferred revenue on the consolidated balance sheets. The Company recognizes income from unredeemed stored-value cards at the point at which redemption becomes remote. The Company's stored-value cards have no expiration date or dormancy fees. Therefore, to determine when redemption is remote, the Company analyzes an aging of the unredeemed cards based on the date of last stored-value card use. The amount of revenue recognized from unredeemed stored-value cards for which redemption was deemed remote was not significant for 2017, 2016, and 2015.

Extended Protection Plans - The Company sells separately-priced extended protection plan contracts under a Lowe's-branded program for which the Company is ultimately self-insured. The Company recognizes revenue from extended protection plan sales on a straight-line basis over the respective contract term. Extended protection plan contract terms primarily range from one to four years from the date of purchase or the end of the manufacturer's warranty, as applicable. Changes in deferred revenue for extended protection plan contracts are summarized as follows:

(In millions)	2017	2016	2015
Deferred revenue - extended protection plans, beginning of year	$ 763	$ 729	$ 730
Additions to deferred revenue	408	387	350
Deferred revenue recognized	(368)	(353)	(351)
Deferred revenue - extended protection plans, end of year	$ 803	$ 763	$ 729

Incremental direct acquisition costs associated with the sale of extended protection plans are also deferred and recognized as expense on a straight-line basis over the respective contract term. Deferred costs associated with extended protection plan contracts were $19 million and $18 million at February 2, 2018, and February 3, 2017, respectively. The Company's extended protection plan deferred costs are included in other assets (noncurrent) on the consolidated balance sheets. All other costs, such as costs of services performed under the contract, general and administrative expenses, and advertising expenses are expensed as incurred.

The liability for extended protection plan claims incurred is included in other current liabilities on the consolidated balance sheets and was not material in any of the years presented. Expenses for claims are recognized when incurred and totaled $161 million, $141 million, and $127 million for 2017, 2016, and 2015, respectively.

Cost of Sales and Selling, General and Administrative Expenses - The following lists the primary costs classified in each major expense category:

Cost of Sales	Selling, General and Administrative
▪ Total cost of products sold, including: - Purchase costs, net of vendor funds; - Freight expenses associated with moving merchandise inventories from vendors to selling locations; - Costs associated with operating the Company's distribution network, including payroll and benefit costs and occupancy costs; ▪ Costs of installation services provided; ▪ Costs associated with delivery of products directly from vendors to customers by third parties; ▪ Costs associated with inventory shrinkage and obsolescence; ▪ Costs of services performed under the extended protection plan.	▪ Payroll and benefit costs for retail and corporate employees; ▪ Occupancy costs of retail and corporate facilities; ▪ Advertising; ▪ Costs associated with delivery of products from stores and distribution centers to customers; ▪ Third-party, in-store service costs; ▪ Tender costs, including bank charges, costs associated with credit card interchange fees and amounts associated with accepting the Company's proprietary credit cards; ▪ Costs associated with self-insured plans, and premium costs for stop-loss coverage and fully insured plans; ▪ Long-lived asset impairment losses and gains/ losses on disposal of assets; ▪ Other administrative costs, such as supplies, and travel and entertainment.

Advertising - Costs associated with advertising are charged to expense as incurred. Advertising expenses were $968 million, $893 million, and $769 million in 2017, 2016, and 2015, respectively.

Shipping and Handling Costs - The Company includes shipping and handling costs relating to the delivery of products directly from vendors to customers by third parties in cost of sales. Shipping and handling costs, which include third-party delivery costs, salaries, and vehicle operations expenses relating to the delivery of products from stores and distribution centers to customers, are classified as SG&A expense. Shipping and handling costs included in SG&A expense were $841 million, $700 million and $607 million in 2017, 2016, and 2015, respectively.

Store Opening Costs - Costs of opening new or relocated retail stores, which include payroll and supply costs incurred prior to store opening and grand opening advertising costs, are charged to expense as incurred.

Comprehensive Income - The Company reports comprehensive income in its consolidated statements of comprehensive income and consolidated statements of shareholders' equity. Comprehensive income represents changes in shareholders' equity from non-owner sources and is comprised of net earnings adjusted primarily for foreign currency translation adjustments. Net foreign currency translation gains, net of tax, classified in accumulated other comprehensive income were $11 million at February 2, 2018. Net foreign currency translation losses, net of tax, classified in accumulated other comprehensive loss were $240 million, and $394 million at February 3, 2017 and January 29, 2016, respectively.

Segment Information - The Company's home improvement retail operations represent a single reportable segment. Key operating decisions are made at the Company level in order to maintain a consistent retail store presentation. The Company's home improvement retail and hardware stores sell similar products and services, use similar processes to sell those products and services, and sell their products and services to similar classes of customers. In addition, the Company's operations exhibit similar long-term economic characteristics. The amounts of long-lived assets and net sales outside of the U.S. were approximately 9.8% and 7.8%, respectively, at February 2, 2018. The amounts of long-lived assets and net sales outside of the U.S. were approximately 8.7% and 5.7%, respectively, at February 3, 2017. The amounts of long-lived assets and net sales outside of the U.S. were not significant at January 29, 2016.

Accounting Pronouncements Recently Adopted - Effective February 4, 2017, the Company adopted Accounting Standards Update (ASU 2016-09), *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. All excess tax benefits or deficiencies related to share-based payments are recognized in the provision for income taxes, which has increased the volatility within our provision for income taxes, as these amounts were previously reported within equity. As a result of the adoption, we have recognized $37 million of excess tax benefits in our provision for income taxes for the fiscal year ended February 2, 2018. The recognition of these benefits contributed $0.04 to diluted earnings per share for the fiscal year ended February 2, 2018. Excess tax benefits were historically reflected as a financing activity in the statements of cash flows, and after adoption, are included within operating activities. Cash paid to tax authorities by the

Company when directly withholding shares for tax purposes continues to be classified as a financing activity in the statement of cash flows. Share-based payment expense continues to reflect estimated forfeitures of share-based payment awards. The Company has adopted the applicable provisions of the ASU prospectively.

Accounting Pronouncements Not Yet Adopted - In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-04, *Intangibles-Goodwill and Other (Topic 350)*. The ASU eliminates Step 2 of the goodwill impairment test, which requires determining the fair value of assets acquired or liabilities assumed in a business combination. Under the amendments in this update, a goodwill impairment test is performed by comparing the fair value of the reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods, with early adoption permitted. The adoption of this guidance by the Company is not expected to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for those leases previously classified as operating leases. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements but expects the ASU to have a material impact on its financial position, as a result of the requirement to recognize right-of-use assets and lease liabilities on the Company's consolidated balance sheets.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the ASU has expanded disclosure requirements regarding revenue. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of the ASU to fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU.

The Company will adopt this ASU in the first quarter of fiscal 2018, using a modified retrospective approach to adoption. Based on the Company's assessment of the standard and its subsequent related amendments and interpretations, the standard will not materially affect our consolidated financial statements. The Company has determined the adoption of the guidance will impact the timing of recognition of its stored value card breakage. Currently, breakage is recognized using the remote method and will be recognized using the proportional method upon adoption of the guidance. The Company will also change the presentation of the sales return reserve on the consolidated balance sheet, as it is currently reported on a net basis, as well as change the timing of how installation services are recognized. In addition, the Company has evaluated its principal versus agent conclusions relating to certain arrangements with third parties and concluded there are no significant changes impacting the presentation of revenue on a gross or net basis. The Company is currently still evaluating any impacts the standard has relating to the classification of profit sharing income earned in connection with our private label credit card programs which is currently included in SG&A. The Company has not identified any significant modifications to existing systems or material changes in the Company's internal controls over financial reporting. The adoption of the ASU will result in increased footnote disclosure requirements.

NOTE 2: Acquisitions

Maintenance Supply Headquarters

On June 23, 2017, the Company completed its acquisition of Maintenance Supply Headquarters, a leading distributor of maintenance, repair and operations (MRO) products serving the multifamily housing industry. The acquisition is expected to enable the Company to deepen and broaden its relationship with Pro customers and better serve their needs. The aggregate cash purchase price of this acquisition was $513 million and is included in the investing section of the consolidated statements of cash flows, net of the cash acquired. Acquisition-related costs were expensed as incurred and were not significant.

The following table summarizes the preliminary purchase price allocation:

(In millions)		June 23, 2017
Allocation:		
Cash acquired	$	4
Merchandise inventory		68
Other current assets		36
Property		12
Goodwill		160
Other assets		260
Accounts payable		(18)
Other current liabilities		(9)
Net assets acquired	**$**	**513**

Intangible assets acquired totaled $259 million, and include a trademark of $34 million with a useful life of 15 years and a customer list of $225 million with a useful life of 20 years, each of which are included in other assets in the accompanying consolidated balance sheets. The goodwill of $160 million is primarily attributable to the synergies expected to arise after the acquisition and is deductible for tax purposes.

Pro forma and historical financial information has not been provided as the acquisition was not material to the consolidated financial statements.

RONA

On May 20, 2016, the Company acquired all of the issued and outstanding common shares of RONA for C$24 per share in cash. In addition, as part of the transaction, borrowings under RONA's revolving credit facility were settled in full at the closing of the acquisition, and the facility was eliminated. Total cash consideration to acquire the equity and settle the debt was C$3.1 billion ($2.4 billion) and is included in the investing section of the consolidated statements of cash flows. RONA is one of Canada's largest retailers and distributors of hardware, building materials, home renovation, and gardening products. The acquisition is expected to enable the Company to accelerate its growth strategy by significantly expanding its presence in the Canadian home improvement market. Acquisition-related costs were expensed as incurred and were not significant.

The following represents the aggregate purchase price allocation which includes purchase accounting adjustments made during the measurement period:

(In millions)		May 20, 2016
Purchase price:		
Cash paid to common shareholders	$	1,999
Cash paid to debt holders		368
Total cash paid	**$**	**2,367**
Allocation:		
Cash acquired	$	83
Accounts receivable		260
Merchandise inventory		814
Property		897
Goodwill		971
Other assets		437
Other current liabilities		(619)
Long-term liabilities		(367)
Noncontrolling interest		(109)
Net assets acquired	**$**	**2,367**

The intangible assets acquired totaled $310 million, and include trademarks of $204 million with a weighted average useful life of 15 years and dealer relationships of $106 million with a weighted average useful life of 20 years, which are included in other assets in the accompanying consolidated balance sheets. The goodwill of $971 million is primarily attributable to the synergies expected to arise after the acquisition. Goodwill of approximately $107 million is expected to be deductible for tax purposes.

The transaction included the assumption by Lowe's of unsecured debentures held by RONA of approximately C$118 million ($91 million) as of the acquisition date. The debentures matured and were settled in October 2016.

As of the acquisition date, 6.9 million preferred shares of RONA remained outstanding. The total fair value of the shares and Lowe's corresponding noncontrolling interest was $109 million, which was determined based on the closing market price of RONA's preferred shares on the acquisition date. During the fourth fiscal quarter of 2016, the Company acquired all of the remaining noncontrolling interest in RONA by paying RONA's preferred shareholders approximately $127 million, which represented an $18 million premium in excess of the carrying amount of the noncontrolling interest. See Note 12 to the consolidated financial statements for information regarding the impact of this transaction to the Company's earnings per share calculation.

Pro forma and historical financial information has not been provided as the acquisition was not material to the consolidated financial statements. In addition, net earnings attributable to the noncontrolling interest was not significant for any of the reporting periods presented.

NOTE 3: Investment in Australian Joint Venture

In the fourth quarter of fiscal year 2015, the Company announced its decision to exit the Australian joint venture investment with Woolworths Limited (Woolworths) and recorded a $530 million impairment of its equity method investment due to a determination that there was a decrease in value that was other than temporary. The Company owned a one-third share in the joint venture, Hydrox Holdings Pty Ltd. (Hydrox), which operated Masters Home Improvement stores and Home Timber and Hardware Group's retail stores and wholesale distribution in Australia. As a result of this decision to exit, Woolworths was required to purchase the Company's one-third share at its fair value as of January 18, 2016. The process for the two parties agreeing on fair value is prescribed in the Joint Venture Agreement. The $530 million non-cash impairment charge recorded in fiscal 2015 was based on the Company's estimate of the value of its portion of the overall joint venture fair value as of January 18, 2016.

During the third quarter of fiscal year 2016, Woolworths claimed a unilateral termination of the joint venture agreement, and executed other agreements to initiate the wind down of Hydrox without the Company's approval as required under the joint venture agreement. Due to this, Lowe's concluded that under applicable accounting standards, the investment should be accounted for as a cost method investment going forward. As a result of this determination, accumulated foreign currency translation adjustments of $208 million were reclassified from accumulated other comprehensive loss into the carrying value of the cost method investment. In addition, the unilateral actions of Woolworths to begin the liquidation of Hydrox, represented a triggering event requiring the Company to evaluate the cost method investment for impairment. Management determined that the requirements for determining impairment were met, and leveraged wind down cash flow projections in determining the estimated fair value of the entity as of October 28, 2016. The value was determined using an income approach based upon the expected future cash flows generated from the settlement of assets and liabilities inclusive of inventory, property, payables, lease liabilities and employee entitlements. As a result, the Company recorded a $290 million non-cash impairment charge during the third quarter of fiscal 2016 to reflect its estimated portion of the overall joint venture fair value in wind down. The Company classified this fair value measurement as Level 3. See Note 4 for additional information on the Company's fair value measurements.

Following the impairment recorded in the third quarter of fiscal 2016, the Company considered the amount due under the joint venture agreement, which was based on the fair value as of January 18, 2016 on a going concern basis, to exceed the recorded amount of the investment, which was based on an estimated current fair value in wind down. This claim for additional value under the joint venture agreement above and beyond any amounts expected to be received through the wind down process, represented a contingent asset whereby the Company would recognize any amounts as they were realized.

During the second quarter of fiscal 2017, the Company completed the sale of our interest in the Australian joint venture with Woolworths and received proceeds of $199 million, which is included in cash flows from investing activities in the accompanying consolidated statements of cash flows. The proceeds from the sale exceeded the carrying value of the investment and resulted in a gain of $96 million. The carrying value prior to the sale reflected the non-cash impairment charges taken in fiscal years 2015 and 2016. The gain is included in selling, general and administrative expense in the accompanying consolidated statements of current and retained earnings.

NOTE 4: Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance for fair value measurements establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

- Level 1 **-** inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities
- Level 2 **-** inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
- Level 3 **-** inputs to the valuation techniques that are unobservable for the assets or liabilities

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The Company's available-for-sale securities represented the only significant assets measured at fair value on a recurring basis for the fiscal years ended February 2, 2018 and February 3, 2017. The following table presents the Company's financial assets measured at fair value on a recurring basis. The fair values of these instruments approximated amortized costs.

		Fair Value Measurements at	
(In millions)	**Measurement Level**	**February 2, 2018**	**February 3, 2017**
Available-for-sale securities:			
Money market funds	Level 1	$ 86	$ 81
Certificates of deposit	Level 1	16	15
Municipal obligations	Level 2	—	4
Total short-term investments		**$ 102**	**$ 100**
Available-for-sale securities:			
Municipal floating rate obligations	Level 2	$ 407	$ 359
Certificates of deposit	Level 1	1	2
Municipal obligations	Level 2	—	5
Total long-term investments		**$ 408**	**$ 366**

There were no transfers between Levels 1, 2 or 3 during any of the periods presented.

When available, quoted prices were used to determine fair value. When quoted prices in active markets were available, investments were classified within Level 1 of the fair value hierarchy. When quoted prices in active markets were not available, fair values were determined using pricing models, and the inputs to those pricing models were based on observable market inputs. The inputs to the pricing models were typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

For the fiscal year ended February 2, 2018, the Company had no significant measurements of assets and liabilities at fair value on a nonrecurring basis subsequent to their initial recognition. For the fiscal year ended February 3, 2017, the Company's only significant assets or liabilities measured at fair value on a nonrecurring basis subsequent to their initial recognition were goodwill (see Note 1 to the consolidated financial statements included herein for additional information regarding this fair value measurement), certain cost method investments (see Note 3 to the consolidated financial statements included herein for additional information regarding this fair value measurement), and certain long-lived assets.

Long-lived assets
The Company reviews the carrying amounts of long-lived assets whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. With input from retail store operations, the Company's accounting and

finance personnel that organizationally report to the chief financial officer, assess the performance of retail stores quarterly against historical patterns and projections of future profitability for evidence of possible impairment. An impairment loss is recognized when the carrying amount of the asset (disposal) group is not recoverable and exceeds its fair value. The Company estimated the fair values of assets subject to long-lived asset impairment based on the Company's own judgments about the assumptions that market participants would use in pricing the assets and on observable market data, when available. The Company classified these fair value measurements as Level 3.

In the determination of impairment for operating locations, the Company determined the fair values of individual operating locations using an income approach, which required discounting projected future cash flows. When determining the stream of projected future cash flows associated with an individual operating location, management made assumptions, incorporating local market conditions and inputs from retail store operations, the highest and best use, and about key variables including the following unobservable inputs: sales growth rates, gross margin, controllable expenses, such as payroll and occupancy expense, and asset residual values. In order to calculate the present value of those future cash flows, the Company discounted cash flow estimates at a rate commensurate with the risk that selected market participants would assign to the cash flows. In general, the selected market participants represented a group of other retailers with a location footprint similar in size to the Company's.

In the determination of impairment for excess properties held-for-use and held-for-sale, which consisted of retail outparcels and property associated with relocated or closed locations, the fair values were determined using a market approach based on estimated selling prices. The Company determined the estimated selling prices by obtaining information from property brokers or appraisers in the specific markets being evaluated or negotiated non-binding offers to purchase. The information obtained from property brokers or appraisers included comparable sales of similar assets and assumptions about demand in the market for these assets.

The following table presents the Company's assets measured at estimated fair value on a nonrecurring basis and the resulting impairment losses included in earnings, excluding costs to sell for excess properties held-for-sale. Because these assets subject to impairment were not measured at fair value on a recurring basis, certain fair value measurements presented in the table may reflect values at earlier measurement dates and may no longer represent the fair values at February 3, 2017.

Fair Value Measurements - Nonrecurring Basis

	February 3, 2017	
(In millions)	**Fair Value Measurements**	**Impairment Losses**
Assets-held-for-use:		
Operating locations	$ 3	$ (34)
Excess properties	18	(9)
Goodwill (Note 1)	—	(46)
Other assets:		
Cost method investments (Note 3)	103	(290)
Total	**$ 124**	**$ (379)**

Fair Value of Financial Instruments

The Company's financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and long-term debt and are reflected in the financial statements at cost. With the exception of long-term debt, cost approximates fair value for these items due to their short-term nature. The fair values of the Company's unsecured notes were estimated using quoted market prices. The fair values of the Company's mortgage notes were estimated using discounted cash flow analyses, based on the future cash outflows associated with these arrangements and discounted using the applicable incremental borrowing rate.

Carrying amounts and the related estimated fair value of the Company's long-term debt, excluding capitalized lease obligations, are as follows:

	February 2, 2018		February 3, 2017	
(In millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Unsecured notes (Level 1)	$ 14,961	$ 15,608	$ 14,321	$ 15,305
Mortgage notes (Level 2)	6	7	7	7
Long-term debt (excluding capitalized lease obligations)	**$ 14,967**	**$ 15,615**	**$ 14,328**	**$ 15,312**

NOTE 5: Property and Accumulated Depreciation

Property is summarized by major class in the following table:

(In millions)	Estimated Depreciable Lives, In Years	February 2, 2018	February 3, 2017
Cost:			
Land	N/A	$ 7,414	$ 7,329
Buildings and building improvements	5-40	18,521	18,147
Equipment	2-15	10,475	10,978
Construction in progress	N/A	530	464
Total cost		**36,940**	**36,918**
Accumulated depreciation		(17,219)	(16,969)
Property, less accumulated depreciation		**$ 19,721**	**$ 19,949**

Included in net property are assets under capital lease of $724 million, less accumulated depreciation of $273 million, at February 2, 2018, and $696 million, less accumulated depreciation of $269 million, at February 3, 2017. The related amortization expense for assets under capital lease is included in depreciation expense. The Company recognized depreciation expense of $1.4 billion in 2017 and $1.5 billion in 2016 and 2015.

NOTE 6: Short-Term Borrowings

The Company has a $1.75 billion unsecured revolving credit agreement (the 2016 Credit Facility) with a syndicate of banks that expires in November 2021. Subject to obtaining commitments from the lenders and satisfying other conditions specified in the 2016 Credit Facility, we may increase the aggregate availability by an additional $500 million. The 2016 Credit Facility supports our commercial paper program. Borrowings under our commercial paper program reduce the amount available for borrowing under its terms. The 2016 Credit Facility contains customary representations, warranties, and covenants for a transaction of this type. The Company was in compliance with those covenants at February 2, 2018.

Outstanding borrowings under the Company's commercial paper program were $1.1 billion, with a weighted average interest rate of 1.85%, as of February 2, 2018, and $510 million, with a weighted average interest rate of 1.01%, as of February 3, 2017. There were no outstanding borrowings under the 2016 Credit Facility as of February 2, 2018 or February 3, 2017.

Table of Contents

NOTE 7: Long-Term Debt

Debt Category (In millions)	Weighted-Average Interest Rate at February 2, 2018	February 2, 2018	February 3, 2017
Secured debt:			
Mortgage notes due through fiscal 2027 [1]	5.38 %	$ 6	$ 7
Unsecured debt:			
Notes due through fiscal 2022	3.05 %	3,577	4,324
Notes due fiscal 2023-2027	3.17 %	4,636	3,143
Notes due fiscal 2028-2032	6.67 %	563	696
Notes due fiscal 2033-2037	5.96 %	897	1,536
Notes due fiscal 2038-2042	4.95 %	1,119	1,731
Notes due fiscal 2043-2047	4.08 %	4,169	2,891
Capitalized lease obligations due through fiscal 2041		891	861
Total long-term debt		**15,858**	**15,189**
Less current maturities		(294)	(795)
Long-term debt, excluding current maturities		**$ 15,564**	**$ 14,394**

[1] *Real properties with an aggregate book value of $26 million were pledged as collateral at February 2, 2018, for secured debt.*

Debt maturities, exclusive of unamortized original issue discounts, unamortized debt issuance costs, and capitalized lease obligations, for the next five years and thereafter are as follows: 2018, $251 million; 2019, $1.1 billion; 2020, $500 million; 2021, $1.0 billion; 2022, $765 million; thereafter, $11.5 billion.

The Company's unsecured notes are issued under indentures that generally have similar terms and, therefore, have been grouped by maturity date for presentation purposes in the table above. The notes contain certain restrictive covenants, none of which are expected to impact the Company's capital resources or liquidity. The Company was in compliance with all covenants of these agreements at February 2, 2018.

Unsecured notes issued during 2015 were as follows:

Issue Date	Principal Amount (in millions)	Maturity Date	Fixed vs. Floating	Interest Rate	Discount (in millions)
September 2015	$ 250	September 2018	Floating	Floating	$ 1
September 2015	$ 750	September 2025	Fixed	3.375%	$ 8
September 2015	$ 750	September 2045	Fixed	4.375%	$ 24

The floating rate notes issued in 2015 will bear interest at a floating rate, reset quarterly, equal to the three-month LIBOR plus 0.600% (2.174% as of February 2, 2018). Interest on these floating rate notes is payable quarterly in arrears in March, June, September, and December of each year until maturity. Interest on the fixed rate notes issued in 2015 is payable semiannually in arrears in March and September of each year until maturity.

Unsecured notes issued during 2016 were as follows:

Issue Date	Principal Amount (in millions)	Maturity Date	Fixed vs. Floating	Interest Rate	Discount (in millions)
April 2016	$ 250	April 2019	Floating	Floating	$ 1
April 2016	$ 350	April 2019	Fixed	1.150%	$ 1
April 2016	$ 1,350	April 2026	Fixed	2.500%	$ 12

April 2016	$	1,350	April 2046	Fixed	3.700%	$	19

The floating rate notes issued in 2016 will bear interest at a floating rate, reset quarterly, equal to the three-month LIBOR plus 0.240% (1.960% as of February 2, 2018). Interest on these floating rate notes is payable quarterly in arrears in April, July, October, and January of each year until maturity. Interest on the fixed rate notes issued in 2016 is payable semiannually in arrears in April and October of each year until maturity.

Unsecured notes issued during 2017 were as follows:

Issue Date	Principal Amount (in millions)		Maturity Date	Fixed vs. Floating	Interest Rate	Discount (in millions)	
May 2017	$	1,500	May 2027	Fixed	3.100%	$	9
May 2017	$	1,500	May 2047	Fixed	4.050%	$	23

Interest on the notes issued in 2017 is payable semiannually in arrears in May and November of each year until maturity.

The discounts associated with these issuances, which include the underwriting and issuance discounts, are recorded in long-term debt and are being amortized over the respective terms of the notes using the effective interest method.

The indentures governing the fixed rate notes issued in 2017, 2016, and 2015, contain a provision that allows the Company to redeem the notes at any time, in whole or in part, at specified redemption prices plus accrued interest to the date of redemption. We do not have the right to redeem the floating rate notes issued in 2016 and 2015 prior to maturity. The indentures also contain a provision that allows the holders of the notes to require the Company to repurchase all or any part of their notes if a change of control triggering event (as defined in the indentures) occurs. If elected under the change of control provisions, the repurchase of the notes will occur at a purchase price of 101% of the principal amount, plus accrued and unpaid interest on such notes to the date of purchase, if any. The indentures governing the notes do not limit the aggregate principal amount of debt securities that the Company may issue and do not require the Company to maintain specified financial ratios or levels of net worth or liquidity. However, the indenture includes various restrictive covenants, none of which is expected to impact the Company's liquidity or capital resources.

During 2017, the Company completed a cash tender offer to purchase and retire $1.6 billion combined aggregate principal amount of its outstanding notes and recognized a loss on extinguishment of debt of $464 million.

NOTE 8: Shareholders' Equity

Authorized shares of preferred stock were 5.0 million ($5 par value) at February 2, 2018, and February 3, 2017, none of which have been issued. The Board of Directors may issue the preferred stock (without action by shareholders) in one or more series, having such voting rights, dividend and liquidation preferences, and such conversion and other rights as may be designated by the Board of Directors at the time of issuance.

Authorized shares of common stock were 5.6 billion ($.50 par value) at February 2, 2018, and February 3, 2017.

The Company has a share repurchase program that is executed through purchases made from time to time either in the open market or through private off-market transactions. Shares purchased under the repurchase program are retired and returned to authorized and unissued status. On January 27, 2017, the Company's Board of Directors authorized a $5.0 billion share repurchase under the program with no expiration, which was announced on the same day. On January 26, 2018, the Company's Board of Directors authorized an additional $5.0 billion share repurchase under the program with no expiration, which was announced on the same day. As of February 2, 2018, the Company had $6.9 billion remaining under the program.

During the year ended February 2, 2018, the Company entered into Accelerated Share Repurchase (ASR) agreements with third-party financial institutions to repurchase a total of 15.7 million shares of the Company's common stock for $1.3 billion. At inception, the Company paid the financial institutions using cash on hand and took initial delivery of shares. Under the terms of the ASR agreements, upon settlement, the Company would either receive additional shares from the financial institution or be required to deliver additional shares or cash to the financial institution. The Company controlled its election to either deliver additional shares or cash to the financial institution and was subject to provisions which limited the number of shares the Company would be required to deliver.

The final number of shares received upon settlement of each ASR agreement was determined with reference to the volume-weighted average price of the Company's common stock over the term of the ASR agreement. The initial repurchase of shares under these agreements resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings per share.

These ASR agreements were accounted for as treasury stock transactions and forward stock purchase contracts. The par value of the shares received was recorded as a reduction to common stock with the remainder recorded as a reduction to capital in excess of par value and retained earnings. The forward stock purchase contracts were considered indexed to the Company's own stock and were classified as equity instruments.

During the year ended February 2, 2018, the Company also repurchased shares of its common stock through the open market totaling 23.4 million shares for a cost of $1.8 billion.

The Company also withholds shares from employees to satisfy either the exercise price of stock options exercised or the statutory withholding tax liability resulting from the vesting of restricted stock awards and performance share units.

Shares repurchased for 2017 and 2016 were as follows:

	2017			2016		
(In millions)	Shares		Cost [1]	Shares		Cost [1]
Share repurchase program	39.1	$	3,133	46.7	$	3,500
Shares withheld from employees	0.5		41	1.0		77
Total share repurchases	**39.6**	**$**	**3,174**	**47.7**	**$**	**3,577**

[1] *Reductions of $2.9 billion and $3.3 billion were recorded to retained earnings, after capital in excess of par value was depleted, for 2017 and 2016, respectively.*

NOTE 9: Accounting for Share-Based Payments

Overview of Share-Based Payment Plans

The Company has a number of active and inactive equity incentive plans (the Incentive Plans) under which the Company has been authorized to grant share-based awards to key employees and non-employee directors. The Company also has an employee stock purchase plan (the ESPP) that allows employees to purchase Company shares at a discount through payroll deductions. All of these plans contain a nondiscretionary anti-dilution provision that is designed to equalize the value of an award as a result of any stock dividend, stock split, recapitalization, or any other similar equity restructuring.

A total of 199.0 million shares have been previously authorized for grant to key employees and non-employee directors under all of the Company's Incentive Plans, but only 80.0 million of those shares were authorized for grants of share-based awards under the Company's currently active Incentive Plans. In addition, a total of 70.0 million shares have been previously authorized for purchases by employees participating in the ESPP.

At February 2, 2018, there were 33.5 million shares remaining available for grants under the currently active Incentive Plans and 21.9 million shares remaining available for purchases under the ESPP.

The Company recognized share-based payment expense within SG&A expense in the consolidated statements of earnings of $99 million, $90 million, and $117 million in 2017, 2016 and 2015 respectively. The total associated income tax benefit recognized was $31 million, $29 million and $38 million in 2017, 2016 and 2015, respectively.

Total unrecognized share-based payment expense for all share-based payment plans was $118 million at February 2, 2018, of which $69 million will be recognized in 2018, $43 million in 2019 and $6 million thereafter. This results in these amounts being recognized over a weighted-average period of 1.7 years.

For all share-based payment awards, the expense recognized has been adjusted for estimated forfeitures where the requisite service is not expected to be provided. Estimated forfeiture rates are developed based on the Company's analysis of historical forfeiture data for homogeneous employee groups.

General terms and methods of valuation for the Company's share-based awards are as follows:

Stock Options

Stock options have terms of seven or 10 years, with one-third of each grant vesting each year for three years, and are assigned an exercise price equal to the closing market price of a share of the Company's common stock on the date of grant. Options are expensed on a straight-line basis over the grant vesting period, which is considered to be the requisite service period.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. When determining expected volatility, the Company considers the historical volatility of the Company's stock price, as well as implied volatility. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant, based on the options' expected term. The expected term of the options is based on the Company's evaluation of option holders' exercise patterns and represents the period of time that options are expected to remain unexercised. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted average assumptions used in the Black-Scholes option-pricing model and weighted-average grant date fair value for options granted in 2017, 2016, and 2015 are as follows:

	2017	2016	2015
Weighted-average assumptions used:			
Expected volatility	23.6 %	24.0 %	31.3 %
Dividend yield	1.68 %	1.66 %	1.69 %
Risk-free interest rate	2.14 %	1.42 %	1.99 %
Expected term, in years	6.43	6.44	7.00
Weighted-average grant date fair value	$ 18.30	$ 15.00	$ 20.27

The total intrinsic value of options exercised, representing the difference between the exercise price and the market price on the date of exercise, was approximately $77 million, $73 million and $68 million in 2017, 2016 and 2015, respectively.

Transactions related to stock options for the year ended February 2, 2018 are summarized as follows:

	Shares (In thousands)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at February 3, 2017	4,239	$ 49.84		
Granted	394	82.44		
Canceled, forfeited or expired	(131)	67.55		
Exercised	(1,687)	37.72		
Outstanding at February 2, 2018	2,815	$ 60.84	7.14	$ 114,479
Vested and expected to vest at February 2, 2018 [1]	2,764	$ 60.54	7.10	$ 113,200
Exercisable at February 2, 2018	1,784	$ 52.55	6.29	$ 87,318

[1] *Includes outstanding vested options as well as outstanding nonvested options after a forfeiture rate is applied.*

Restricted Stock Awards

Restricted stock awards are valued at the market price of a share of the Company's common stock on the date of grant. In general, these awards vest at the end of a three-year period from the date of grant and are expensed on a straight-line basis over that period, which is considered to be the requisite service period. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted-average grant-date fair value per share of restricted stock awards granted was $82.41, $71.35 and $69.44 in 2017, 2016, and 2015, respectively. The total fair value of restricted stock awards vesting was approximately $71 million, $151 million and $144 million in 2017, 2016 and 2015, respectively.

Transactions related to restricted stock awards for the year ended February 2, 2018 are summarized as follows:

	Shares (In thousands)	Weighted-Average Grant-Date Fair Value Per Share
Nonvested at February 3, 2017	2,681	$ 64.22
Granted	473	82.41
Vested	(910)	53.87
Canceled or forfeited	(348)	67.03
Nonvested at February 2, 2018	1,896	$ 73.21

Deferred Stock Units

Deferred stock units are valued at the market price of a share of the Company's common stock on the date of grant. For non-employee Directors, these awards vest immediately and are expensed on the grant date. During 2017, 2016 and 2015, each non-employee Director was awarded a number of deferred stock units determined by dividing the annual award amount by the fair market value of a share of the Company's common stock on the award date and rounding up to the next 100 units. The annual award amount used to determine the number of deferred stock units granted to each Director was $175,000 for 2017, and $150,000 for 2016 and 2015. During 2017, 22,000 deferred stock units were granted and immediately vested for non-employee Directors. The weighted-average grant-date fair value per share of deferred stock units granted was $80.22, $80.35 and $69.98 in 2017, 2016 and 2015, respectively. The total fair value of deferred stock units vested was $1.8 million in 2017, and $1.5 million in 2016 and 2015. During 2017, no fully vested deferred stock units were released as a result of termination of service. At February 2, 2018, there were 0.4 million deferred stock units outstanding, all of which were vested.

Performance Share Units

The Company issues performance share units classified as equity awards. Expense is recognized on a straight-line basis over the requisite service period, based on the probability of achieving the performance condition, with changes in expectations recognized as an adjustment to earnings in the period of the change. Compensation cost is not recognized for performance share units that do not vest because service or performance conditions are not satisfied and any previously recognized compensation cost is reversed. Performance share units do not have dividend rights. The Company uses historical data to estimate the timing and amount of forfeitures.

The Company's performance share units are classified as equity and contain performance and service conditions that must be satisfied for an employee to earn the right to benefit from the award. The performance condition is primarily based on the achievement of the Company's target return on non-cash average assets (RONCAA). These awards are valued at the market price of a share of the Company's common stock on the date of grant less the present value of dividends expected during the requisite service period.

In fiscal 2016, the Company began issuing performance share units that contain a market condition modifier, in addition to having a performance and service condition. The performance condition for these awards continues to be based primarily on the achievement of the Company's RONCAA targets. The market condition is based on the Company's total shareholder return (TSR) compared to the median TSR of companies listed in the S&P 500 Index over a three year performance period. The Company used a Monte-Carlo simulation to determine the grant date fair value for these awards, which takes into consideration the possible outcomes pertaining to the TSR market condition. The weighted-average assumptions used in the Monte Carlo simulations for these awards granted in 2017 and 2016 are as follows:

	2017	2016
Weighted-average assumptions used:		
Expected volatility	20.8 %	21.4 %
Dividend yield	1.62 %	1.53 %
Risk-free interest rate	1.46 %	0.88 %
Expected term, in years	2.83	2.82

Table of Contents

In general, 0% to 200% of the Company's performance share units vest at the end of a three year service period from the date of grant based upon achievement of the performance condition, or a combination of the performance and market conditions, specified in the performance share unit agreement.

The weighted-average grant-date fair value per unit of performance share units classified as equity awards granted was $91.50, $77.58 and $71.52 in 2017, 2016 and 2015, respectively. The total fair value of performance share units vesting was approximately $31 million, $24 million, and $25 million in 2017, 2016, and 2015, respectively.

Transactions related to performance share units classified as equity awards for the year ended February 2, 2018 are summarized as follows:

	Units (In thousands)[1]	Weighted-Average Grant-Date Fair Value Per Unit
Nonvested at February 3, 2017	723	$ 65.30
Granted	273	91.50
Vested	(253)	47.29
Canceled or forfeited	(45)	77.42
Nonvested at February 2, 2018	698	$ 81.31

[1] *The number of units presented is based on achieving the targeted performance goals as defined in the performance share unit agreements. As of February 2, 2018, the maximum number of nonvested units that could vest under the provisions of the agreements was 1.3 million for the RONCAA awards.*

Restricted Stock Units

Restricted stock units do not have dividend rights and are valued at the market price of a share of the Company's common stock on the date of grant less the present value of dividends expected during the requisite service period. In general, these awards vest at the end of a three-year period from the date of grant and are expensed on a straight-line basis over that period, which is considered to be the requisite service period. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted-average grant-date fair value per share of restricted stock units granted was $75.44, $67.26 and $66.24 in 2017, 2016 and 2015, respectively. The total fair value of restricted stock units vesting was approximately $5.6 million, $7.7 million, and $3.5 million in 2017, 2016 and 2015, respectively.

Transactions related to restricted stock units for the year ended February 2, 2018 are summarized as follows:

	Shares (In thousands)	Weighted-Average Grant-Date Fair Value Per Share
Nonvested at February 3, 2017	323	$ 62.85
Granted	85	75.44
Vested	(72)	50.42
Canceled or forfeited	(59)	66.29
Nonvested at February 2, 2018	277	$ 69.21

ESPP

The purchase price of the shares under the ESPP equals 85% of the closing price on the date of purchase. The Company's share-based payment expense per share is equal to 15% of the closing price on the date of purchase. The ESPP is considered a liability award and is measured at fair value at each reporting date, and the share-based payment expense is recognized over the six-month offering period. The Company issued 1.1 million shares of common stock in 2017 and 1.3 million shares of common stock in 2016 and 2015 and recognized $13 million, $15 million, and $14 million of share-based payment expense pursuant to the plan in 2017, 2016, and 2015, respectively.

NOTE 10: Employee Retirement Plans

The Company maintains a defined contribution retirement plan for eligible employees (the 401(k) Plan). Eligible employees may participate in the 401(k) Plan six months after their original date of service. Eligible employees hired or rehired prior to November 1, 2012, were automatically enrolled in the 401(k) Plan at a contribution rate of 1% of their pre-tax annual compensation unless they elected otherwise. Eligible employees hired or rehired November 1, 2012, or later must make an active election to participate in the 401(k) Plan. The Company makes contributions to the 401(k) Plan each payroll period, based upon a matching formula applied to employee deferrals (the Company Match). Participants are eligible to receive the Company Match pursuant to the terms of the 401(k) Plan. The Company Match varies based on how much the employee elects to defer up to a maximum of 4.25% of eligible compensation. The Company Match is invested identically to employee contributions and is immediately vested.

The Company maintains a Benefit Restoration Plan to supplement benefits provided under the 401(k) Plan to participants whose benefits are restricted as a result of certain provisions of the Internal Revenue Code of 1986. This plan provides for employee salary deferrals and employer contributions in the form of a Company Match.

The Company maintains a non-qualified deferred compensation program called the Lowe's Cash Deferral Plan. This plan is designed to permit certain employees to defer receipt of portions of their compensation, thereby delaying taxation on the deferral amount and on subsequent earnings until the balance is distributed. This plan does not provide for Company contributions.

The Company recognized expense associated with these employee retirement plans of $174 million, $180 million and $155 million in 2017, 2016 and 2015, respectively.

NOTE 11: Income Taxes

The following is a reconciliation of the federal statutory tax rate to the effective tax rate:

	2017	2016	2015
Statutory federal income tax rate [1]	33.7 %	35.0 %	35.0 %
State income taxes, net of federal tax benefit	2.9	3.6	3.6
Valuation allowance - Australian joint venture	(0.6)	2.0	4.2
Other, net	1.2	(0.1)	(0.4)
Effective tax rate	**37.2 %**	**40.5 %**	**42.4 %**

[1] *The Company utilized a blended rate in 2017 due to the Tax Cuts and Job Act enacted on December 22, 2017.*

The components of the income tax provision are as follows:

(In millions)	2017	2016	2015
Current:			
Federal	$ 1,734	$ 1,824	$ 1,688
State	252	275	248
Total current [1]	**1,986**	**2,099**	**1,936**
Deferred:			
Federal	60	6	(59)
State	(4)	3	(4)
Total deferred [1]	**56**	**9**	**(63)**
Total income tax provision	**$ 2,042**	**$ 2,108**	**$ 1,873**

[1] *Amounts applicable to foreign income taxes were insignificant for all periods presented.*

The tax effects of cumulative temporary differences that gave rise to the deferred tax assets and liabilities were as follows:

(In millions)	February 2, 2018	February 3, 2017
Deferred tax assets:		
Self-insurance	$ 238	$ 352
Share-based payment expense	36	69
Deferred rent	66	78
Impairment of investment	—	381
Capital loss carryforwards	225	—
Net operating losses	213	174
Other, net	124	175
Total deferred tax assets	**902**	**1,229**
Valuation allowance	(475)	(578)
Net deferred tax assets	**427**	**651**
Deferred tax liabilities:		
Property	(264)	(417)
Other, net	(23)	(34)
Total deferred tax liabilities	**(287)**	**(451)**
Net deferred tax asset	**$ 140**	**$ 200**

On December 22, 2017, the U.S. government enacted the Tax Cuts and Job Act (Tax Act). Among other provisions, the Tax Act lowered the corporate federal income tax rate from 35% to 21%, and effectively changed the U.S. corporate income tax system from a worldwide tax system to a territorial tax system. In addition, the Tax Act established a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries and added a new provision for a tax on global intangible low-taxed income (GILTI). The Company has made an accounting policy election to record the U.S. income tax effect of future GILTI inclusions in the period in which they arise. The Tax Act could be amended or subjected to technical correction, which could change the financial impacts recorded at February 2, 2018, or expected to be recorded in future periods.

Also on December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB 118) which provided guidance on accounting for the impact of the Tax Act. SAB 118 provides for a measurement period, that cannot extend beyond one year from the law's enactment date, to determine and report a provisional impact of certain income tax effects of the Tax Act that were incomplete under ASC 740 as of year-end.

As a result of the Tax Act, the Company utilized a blended statutory tax rate of 33.7% for 2017 in accordance with Section 15 of the Internal Revenue Code. This blended rate resulted in a tax benefit of $58 million for the year. The Company recorded a $56 million provisional tax expense for the measurement of its U.S. net deferred tax assets at the newly enacted corporate rate and a $22 million provisional tax expense for the one-time transition tax on unrepatriated earnings of foreign subsidiaries. While the Company made reasonable estimates of the impact of the reduction in the corporate rate and the deemed repatriation transition tax, the final impact may differ due to subsequent legislative action changes in interpretations and assumptions as well as the issuance of additional guidance from the Internal Revenue Service and state taxing authorities. The Company will continue to gather additional information to determine the concluding impact.

As of February 2, 2018, the Company reported a deferred tax asset of $225 million, for the capital loss realized in 2017 for U.S. federal income tax purposes related to the exit from the Company's joint venture investment in Australia. Since no present or future capital gains have been identified through which the asset can be realized, the Company has a full valuation allowance against the deferred tax asset. For U.S. federal tax purposes, this loss has a five-year carryforward period expiring at the end of fiscal 2022. As of February 3, 2017, the Company reported a deferred tax asset and full valuation allowance of $381 million related to its intention to exit the Company's joint venture investment in Australia.

In December 2016, the U.S. Treasury Department and the U.S. Internal Revenue Service issued final and temporary regulations under Internal Revenue Code Section 987 (the Regulations). The Regulations provide guidance on the taxation of foreign currency gains and losses arising from qualified business units that operate in a currency other than the currency of their owner. As a result of the newly enacted guidance, net deferred tax assets were reduced by $11 million in 2017 and $33 million in 2016.

The Company operates as a branch in various foreign jurisdictions and cumulatively has incurred net operating losses of $720 million and $640 million as of February 2, 2018, and February 3, 2017, respectively. These net operating losses are subject to expiration in 2018 through 2037. Deferred tax assets have been established for these foreign net operating losses in the accompanying consolidated balance sheets. Given the uncertainty regarding the realization of the foreign net deferred tax assets, the Company recorded cumulative valuation allowances of $234 million and $197 million as of February 2, 2018, and February 3, 2017, respectively.

A reconciliation of the beginning and ending balances of unrecognized tax benefits is as follows:

(In millions)	2017	2016	2015
Unrecognized tax benefits, beginning of year	$ 6	$ 3	$ 7
Additions for tax positions of prior years	—	3	—
Reductions for tax positions of prior years	(2)	—	(2)
Settlements	(1)	—	(2)
Reductions due to a lapse in applicable statute of limitations	(3)	—	—
Unrecognized tax benefits, end of year	$ —	$ 6	$ 3

The amounts of unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate were $5 million as of February 3, 2017, and $2 million as of January 29, 2016.

The Company recognized $3 million of interest income, $2 million of interest expense, and $1 million of interest income related to uncertain tax positions during 2017, 2016, and 2015, respectively. The Company had no accrued interest related to uncertain tax positions as of February 2, 2018 and $3 million as of February 3, 2017.

Penalties recognized related to uncertain tax positions were insignificant for 2017, 2016, and 2015. Accrued penalties were also insignificant as of February 2, 2018 and February 3, 2017.

The Company is subject to examination by various foreign and domestic taxing authorities. There are ongoing U.S. state audits covering tax years 2011 to 2016. An audit of the Company's Canadian operations by the Canada Revenue Agency for fiscal years 2012 and 2013 is on-going. The Company remains subject to income tax examinations for international income taxes for fiscal years 2012 through 2016. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years.

Note 12: Earnings Per Share

The Company calculates basic and diluted earnings per common share using the two-class method. Under the two-class method, net earnings are allocated to each class of common stock and participating security as if all of the net earnings for the period had been distributed. The Company's participating securities consist of share-based payment awards that contain a nonforfeitable right to receive dividends and, therefore, are considered to participate in undistributed earnings with common shareholders.

Basic earnings per common share excludes dilution and is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares as of the balance sheet date, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings per common share for 2017, 2016 and 2015:

(In millions, except per share data)		2017		2016		2015
Basic earnings per common share:						
Net earnings attributable to Lowe's Companies, Inc.	$	3,447	$	3,091	$	2,546
Less: Net earnings allocable to participating securities		(11)		(11)		(12)
Less: Premium paid to acquire noncontrolling interest		—		(18)		—
Net earnings allocable to common shares, basic	**$**	**3,436**	**$**	**3,062**	**$**	**2,534**
Weighted-average common shares outstanding		**839**		**880**		**927**
Basic earnings per common share	**$**	**4.09**	**$**	**3.48**	**$**	**2.73**
Diluted earnings per common share:						
Net earnings attributable to Lowe's Companies, Inc.	$	3,447	$	3,091	$	2,546
Less: Net earnings allocable to participating securities		(11)		(11)		(12)
Less: Premium paid to acquire noncontrolling interest		—		(18)		—
Net earnings allocable to common shares, diluted	**$**	**3,436**	**$**	**3,062**	**$**	**2,534**
Weighted-average common shares outstanding		839		880		927
Dilutive effect of non-participating share-based awards		1		1		2
Weighted-average common shares, as adjusted		**840**		**881**		**929**
Diluted earnings per common share	**$**	**4.09**	**$**	**3.47**	**$**	**2.73**

As discussed in Note 2 to the consolidated financial statements, the Company paid RONA’s preferred shareholders a premium to acquire the remaining noncontrolling interest in RONA during the fourth quarter of fiscal 2016. The premium paid was accounted for as a capital transaction and as such, no loss was recognized in the Company’s consolidated financial statements. However, the premium paid represents a return on investment to RONA’s preferred shareholders and is not available to common shareholders. Therefore, the premium paid to acquire the remaining noncontrolling interest is reflected in the table above as a deduction from net earnings to compute net earnings allocable to common shares.

Stock options to purchase 0.5 million, 1.0 million and 0.3 million shares of common stock for 2017, 2016 and 2015, respectively, were excluded from the computation of diluted earnings per common share because their effect would have been anti-dilutive.

NOTE 13: Leases

The Company leases facilities and land for certain facilities under agreements with original terms generally of 20 years. The leases generally contain provisions for four to six renewal options of five years each. Some lease agreements also provide for contingent rentals based on sales performance in excess of specified minimums or on changes in the consumer price index. Contingent rentals were not significant for any of the periods presented. The Company subleases certain properties that are not used in its operations. Sublease income was not significant for any of the periods presented.

The future minimum rental payments required under operating leases and capitalized lease obligations having initial or remaining non-cancelable lease terms in excess of one year are summarized as follows:

(In millions) Fiscal Year		Operating Leases		Capitalized Lease Obligations		Total
2018	$	666	$	108	$	774
2019		626		166		792
2020		573		88		661
2021		526		91		617
2022		476		87		563
Later years		2,970		951		3,921
Total minimum lease payments	**$**	**5,837**	**$**	**1,491**	**$**	**7,328**
Less amount representing interest				(600)		
Present value of minimum lease payments				**891**		
Less current maturities				(45)		
Present value of minimum lease payments, less current maturities			**$**	**846**		

Rental expenses under operating leases were $626 million, $549 million and $473 million in 2017, 2016 and 2015, respectively, and were recognized within SG&A expense. Excluded from these amounts are rental expenses associated with closed locations which were recognized as exit costs in the period of closure.

NOTE 14: Commitments and Contingencies

The Company is, from time to time, party to various legal proceedings considered to be in the normal course of business, none of which, individually or in the aggregate, are expected to be material to the Company's financial statements. In evaluating liabilities associated with its various legal proceedings, the Company has accrued for probable liabilities associated with these matters. The amounts accrued were not material to the Company's consolidated financial statements in any of the years presented. Reasonably possible losses for any of the individual legal proceedings which have not been accrued were not material to the Company's consolidated financial statements.

As of February 2, 2018, the Company had non-cancelable commitments of $1.1 billion related to certain marketing and information technology programs, and purchases of merchandise inventory. Payments under these commitments are scheduled to be made as follows: 2018, $537 million; 2019, $318 million; 2020, $160 million; 2021, $51 million; 2022, $3 million; thereafter, $0 million.

At February 2, 2018, the Company held standby and documentary letters of credit issued under banking arrangements which totaled $63 million. The majority of the Company's letters of credit were issued for insurance contracts.

NOTE 15: Related Parties

A member of the Company's Board of Directors also serves on the Board of Directors of a vendor that provides branded consumer packaged goods to the Company. The Company purchased products from this vendor in the amount of $149 million in 2017, $124 million in 2016, and $153 million in 2015. Amounts payable to this vendor were insignificant at February 2, 2018 and February 3, 2017.

A member of the Company's Board of Directors also serves on the Board of Directors of a vendor that provides certain services to the Company related to health and welfare benefit plans. The Company made payments to this vendor in the amount of $14 million in 2017, $59 million in 2016, and $58 million in 2015. Amounts payable to this vendor were insignificant at February 2, 2018 and February 3, 2017.

Table of Contents

NOTE 16: Other Information

Net interest expense is comprised of the following:

(In millions)	2017	2016	2015
Long-term debt	$ 582	$ 583	$ 505
Capitalized lease obligations	56	53	42
Interest income	(16)	(12)	(4)
Interest capitalized	(5)	(4)	(3)
Interest on tax uncertainties	(3)	2	(1)
Other	19	23	13
Interest - net	**$ 633**	**$ 645**	**$ 552**

Supplemental disclosures of cash flow information:

(In millions)	2017	2016	2015
Cash paid for interest, net of amount capitalized	$ 654	$ 619	$ 535
Cash paid for income taxes, net	$ 1,673	$ 2,217	$ 2,055
Non-cash investing and financing activities:			
Non-cash property acquisitions, including assets acquired under capital lease	$ 97	$ 86	$ 102
Cash dividends declared but not paid	$ 340	$ 304	$ 255

Sales by product category:

	2017		2016		2015	
(Dollars in millions)	Total Sales	%	Total Sales	%	Total Sales	%
Lumber & Building Materials	$ 9,508	14%	$ 8,505	13%	$ 7,007	12%
Appliances	7,696	11	7,037	11	6,477	11
Seasonal & Outdoor Living	7,165	10	6,996	11	6,623	11
Tools & Hardware	6,713	10	6,359	10	5,686	10
Fashion Fixtures	6,429	9	6,303	10	5,806	10
Rough Plumbing & Electrical	6,149	9	5,741	9	5,203	9
Paint	5,321	8	5,183	8	4,742	8
Millwork	5,308	8	5,236	8	4,957	8
Lawn & Garden	5,251	8	5,109	8	4,732	8
Flooring	4,363	6	4,227	6	3,887	7
Kitchens	3,644	5	3,532	5	3,276	5
Other	1,072	2	789	1	678	1
Totals	$ 68,619	100%	$ 65,017	100%	$ 59,074	100%

NOTE 17: Derivative Instruments

In February 2016, the Company entered into an option to purchase 3.2 billion Canadian dollars in order to manage the foreign currency exchange rate risk on the consideration to be paid for the RONA acquisition. This option contract was not accounted for as a hedging instrument, and gains and losses resulting from changes in fair value and settlement were included in selling, general and administrative expense in the accompanying consolidated statements of current and retained earnings. The cash flows related to this option were included within investing activities in the accompanying consolidated statements of cash flows.

The premium paid for the foreign currency exchange option contract was $103 million. The option contract was settled during the second quarter of fiscal year 2016 for $179 million, resulting in a total realized gain of $76 million for the year ended February 3, 2017.

The Company’s other derivative instruments, and related activity, were not material in any of the periods presented.

SUPPLEMENTARY DATA

Selected Quarterly Data (UNAUDITED)

The following table summarizes the quarterly consolidated results of operations for 2017 and 2016:

	2017			
(In millions, except per share data)	First [1]	Second [2]	Third	Fourth [3]
Net sales	$ 16,860	$ 19,495	$ 16,770	$ 15,494
Gross margin	5,800	6,670	5,713	5,226
Net earnings	602	1,419	872	554
Basic earnings per common share	0.70	1.68	1.05	0.67
Diluted earnings per common share	$ 0.70	$ 1.68	$ 1.05	$ 0.67

	2016			
(In millions, except per share data)	First [4]	Second [5]	Third [6]	Fourth [7, 8]
Net sales	$ 15,234	$ 18,260	$ 15,739	$ 15,784
Gross margin	5,337	6,288	5,407	5,432
Net earnings	884	1,167	379	663
Basic earnings per common share	0.98	1.32	0.43	0.74
Diluted earnings per common share	$ 0.98	$ 1.31	$ 0.43	$ 0.74

1 *The first quarter of fiscal 2017 includes a $464 million loss on extinguishment of debt in connection with a $1.6 billion cash tender offer.*

2 *The second quarter of fiscal 2017 includes a $96 million gain from the sale of the Company's interest in its Australian joint venture with Woolworths.*

3 *The fourth quarter of fiscal 2017 includes the $20 million net impact associated with the Tax Cuts and Jobs Act of 2017 and $66 million from a one-time cash bonus to eligible hourly employees attributable to the passage of the Tax Cuts and Jobs Act of 2017.*

4 *The first quarter of fiscal 2016 includes a $160 million unrealized gain associated with a foreign currency hedge entered into in advance of the RONA acquisition.*

5 *The second quarter of fiscal 2016 includes a $84 million loss from the Company settling its foreign currency hedge entered into in advance of the RONA acquisition.*

6 *The third quarter of fiscal 2016 includes the following: $290 million resulting from impairment associated with the wind down of the Company's investment in the Australian joint venture with Woolworths; $96 million related to a write-off for projects that were canceled as part of the Company's ongoing review of strategic initiatives in an effort to focus on critical projects that will drive desired outcomes; and $76 million related to goodwill and long-lived asset impairments associated with the Company's Orchard operations as part of a strategic reassessment of this business.*

7 *The fourth quarter of fiscal 2016 includes the following: $84 million for severance-related costs associated with the Company's productivity efforts; $32 million resulting from a tax charge primarily related to the issuance of final Internal Revenue Code Section 987 regulations in December 2016.*

8 *The fourth quarter of fiscal 2016 contained an additional week.*

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A - Controls and Procedures

The Company’s management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s “disclosure controls and procedures”, (as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act)). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Annual Report, the Company’s disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and (2) is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management’s report on internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) and the report of Deloitte & Touche LLP, the Company’s independent registered public accounting firm, are included in Item 8 of this Annual Report.

In addition, no change in the Company’s internal control over financial reporting occurred during the fiscal fourth quarter ended February 2, 2018 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B - Other Information

None.

Part III

Item 10 - Directors, Executive Officers and Corporate Governance

The information required by this item with respect to our executive officers appears in Part I of this Annual Report under the heading, “Executive Officers of the Registrant”. The other information required by this item is furnished by incorporation by reference to the information under the headings “Proposal 1: Election of Directors”, “Information About the Board of Directors and Committees of the Board”, “Section 16(a) Beneficial Ownership Reporting Compliance”, and “Additional Information - Shareholder Proposals for the 2019 Annual Meeting” in the definitive Proxy Statement for the 2018 annual meeting of shareholders, which will be filed with the SEC within 120 days after the fiscal year ended February 2, 2018 (the Proxy Statement).

We have adopted a written code of business conduct and ethics, which is intended to qualify as a “code of ethics” within the meaning of Item 406 of Regulation S-K of the Exchange Act, which we refer to as the Lowe’s Code of Business Conduct and Ethics (the Code). The Code applies to all employees of the Company, including our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions. The Code is designed to ensure that the Company’s business is conducted in a legal and ethical manner. The Code covers all areas of professional conduct, including compliance with laws and regulations, conflicts of interest, fair dealing among customers and suppliers, corporate opportunity, confidential information, insider trading, employee relations, and accounting complaints. The full text of the Code can be found on our website at www.Lowes.com, under the “About Lowe’s”, “Investor Relations”, and “Governance - Code of Business Conduct and Ethics” headings. You can also obtain a copy of the complete Code by contacting Investor Relations at 1-800-813-7613.

We will disclose information pertaining to amendments or waivers to provisions of the Code that apply to our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions and that relate to any element of the Code enumerated in the SEC rules and regulations by posting this information on our website at www.Lowes.com. The information on our website is not a part of this Annual Report and is not incorporated by reference in this report or any of our other filings with the SEC.

Item 11 - Executive Compensation

The information required by this item is furnished by incorporation by reference to the information under the headings “Information About the Board of Directors and Committees of the Board – Compensation of Directors”, “Compensation Discussion and Analysis”, “Compensation Tables”, and “Compensation Committee Interlocks and Insider Participation” in the Proxy Statement.

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is furnished by incorporation by reference to the information under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the Proxy Statement.

Item 13 - Certain Relationships and Related Transactions, and Director Independence

The information required by this item is furnished by incorporation by reference to the information under the headings “Information About the Board of Directors and Committees of the Board – Director Independence”, “Related Person Transactions”, and “Appendix A: Categorical Standards for Determination of Director Independence” in the Proxy Statement.

Item 14 - Principal Accountant Fees and Services

The information required by this item is furnished by incorporation by reference to the information under the heading “Audit Matters – Fees Paid to the Independent Registered Public Accounting Firm” in the Proxy Statement.

Part IV

Item 15 – Exhibits and Financial Statement Schedules

a) 1. Financial Statements

See the following items and page numbers appearing in Item 8 of this Annual Report:

	Page No.
Reports of Independent Registered Public Accounting Firm	38
Consolidated Statements of Earnings for each of the three fiscal years in the period ended February 2, 2018	40
Consolidated Statements of Comprehensive Income for each of the three fiscal years in the period ended February 2, 2018	40
Consolidated Balance Sheets at February 2, 2018 and February 3, 2017	41
Consolidated Statements of Shareholders' Equity for each of the three fiscal years in the period ended February 2, 2018	42
Consolidated Statements of Cash Flows for each of the three fiscal years in the period ended February 2, 2018	43
Notes to Consolidated Financial Statements for each of the three fiscal years in the period ended February 2, 2018	44

2. Financial Statement Schedule

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In millions)	Balance at beginning of period	Charges to costs and expenses	Deductions	Balance at end of period
February 2, 2018:				
Reserve for loss on obsolete inventory	$ 59	$ 18 [1]	$ —	$ 77
Reserve for inventory shrinkage	189	456	(433) [2]	212
Reserve for sales returns	71	—	—	71
Deferred tax valuation allowance	578	—	(103) [4]	475
Self-insurance liabilities	831	1,547	(1,488) [5]	890
Reserve for exit activities	66	19	(25) [6]	60
February 3, 2017:				
Reserve for loss on obsolete inventory	$ 46	$ 13 [1]	$ —	$ 59
Reserve for inventory shrinkage	171	397	(379) [2]	189
Reserve for sales returns	66	5 [3]	—	71
Deferred tax valuation allowance	447	131 [4]	—	578
Self-insurance liabilities	883	1,418	(1,470) [5]	831
Reserve for exit activities	67	47	(48) [6]	66
January 29, 2016:				
Reserve for loss on obsolete inventory	$ 52	$ —	$ (6) [1]	$ 46
Reserve for inventory shrinkage	162	345	(336) [2]	171
Reserve for sales returns	65	1 [3]	—	66
Deferred tax valuation allowance	170	277 [4]	—	447
Self-insurance liabilities	905	1,357	(1,379) [5]	883
Reserve for exit activities	53	34	(20) [6]	67

1 *Represents the net increase/(decrease) in the required reserve based on the Company's evaluation of obsolete inventory.*

2 *Represents the actual inventory shrinkage experienced at the time of physical inventories.*

3 *Represents the net increase in the required reserve based on the Company's evaluation of anticipated merchandise returns.*

4 *Represents an increase/(decrease) in the required reserve based on the Company's evaluation of deferred tax assets.*

5 *Represents claim payments for self-insured claims.*

6 *Represents lease payments, net of sublease income.*

Table of Contents

3. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
2.1	Arrangement Agreement, dated as of February 2, 2016, among Lowe's Companies, Inc., Lowe's Companies Canada, ULC and RONA inc. (1)	10-K	001-07898	2.1	March 29, 2016
3.1	Restated Charter of Lowe's Companies, Inc.	10-Q	001-07898	3.1	September 1, 2009
3.2	Bylaws of Lowe's Companies, Inc., as amended and restated May 27, 2016.	8-K	001-07898	3.1	May 31, 2016
4.1	Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee.	8-K	001-07898	4.1	December 15, 1995
4.2	Form of Lowe's Companies, Inc.'s 6 7/8% Debentures due February 15, 2028.	8-K	001-07898	4.2	February 20, 1998
4.3	First Supplemental Indenture, dated as of February 23, 1999, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee.	10-K	001-07898	10.13	April 19, 1999
4.4	Form of Lowe's Companies, Inc.'s 6 1/2% Debentures due March 15, 2029.	10-K	001-07898	10.19	April 19, 1999
4.5	Third Supplemental Indenture, dated as of October 6, 2005, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as an exhibit thereto a form of Lowe's Companies, Inc.'s 5.5% Notes maturing in October 2035.	10-K	001-07898	4.5	April 3, 2007

4.6	Fourth Supplemental Indenture, dated as of October 10, 2006, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as an exhibit thereto a form of Lowe's Companies, Inc.'s 5.80% Notes maturing in October 2036.	S-3 (POSASR)	333-137750	4.5	October 10, 2006

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
4.7	Fifth Supplemental Indenture, dated as of September 11, 2007, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 6.10% Notes maturing in September 2017 and a form of Lowe's Companies, Inc.'s 6.65% Notes maturing in September 2037.	8-K	001-07898	4.1	September 11, 2007
4.8	Sixth Supplemental Indenture, dated as of April 15, 2010, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 4.625% Notes maturing in April 2020 and a form of Lowe's Companies, Inc.'s 5.800% Notes maturing in April 2040.	8-K	001-07898	4.1	April 15, 2010
4.9	Seventh Supplemental Indenture, dated as of November 22, 2010, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as an exhibit thereto a form of Lowe's Companies, Inc.'s 3.750% Notes maturing in April 2021.	8-K	001-07898	4.1	November 22, 2010
4.10	Eighth Supplemental Indenture, dated as of November 23, 2011, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 3.800% Notes maturing in November 2021 and a form of Lowe's Companies, Inc.'s	8-K	001-07898	4.1	November 23, 2011

	5.125% Notes maturing in November 2041.				
4.11	Ninth Supplemental Indenture, dated as of April 23, 2012, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 1.625% Notes maturing in April 2017, a form of Lowe's Companies, Inc.'s 3.120% Notes maturing in April 2022 and a form of Lowe's Companies, Inc.'s 4.650% Notes maturing in April 2042.	8-K	001-07898	4.1	April 23, 2012

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
4.12	Tenth Supplemental Indenture, dated as of September 11, 2013, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 3.875% Notes maturing in September 2023 and a form of Lowe's Companies, Inc.'s 5.000% Notes maturing in September 2043.	8-K	001-07898	4.1	September 11, 2013
4.13	Eleventh Supplemental Indenture, dated as of September 10, 2014, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s Floating Rate Notes maturing in September 2019, a form of Lowe's Companies, Inc.'s 3.125% Notes maturing in September 2024 and a form of Lowe's Companies, Inc.'s 4.250% Notes maturing in September 2044.	8-K	001-07898	4.1	September 10, 2014
4.14	Twelfth Supplemental Indenture, dated as of September 16, 2015, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s Floating Rate Notes maturing in September 2018, a form of Lowe's Companies, Inc.'s 3.375% Notes maturing in September 2025 and a form of Lowe's Companies, Inc.'s 4.375% Notes maturing in September 2045.	8-K	001-07898	4.1	September 16, 2015
4.15	Thirteenth Supplemental Indenture, dated as of April 20,	8-K	001-07898	4.1	April 20, 2016

	2016, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and U.S. Bank National Association, as trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s Floating Rate Notes maturing in April 2019, a form of Lowe's Companies, Inc.'s 1.15% Notes maturing in April 2019, a form of Lowe's Companies, Inc.'s 2.50% Notes maturing in April 2026 and a form of Lowe's Companies, Inc.'s 3.70% Notes maturing in April 2046.				
4.16	Fourteenth Supplemental Indenture, dated as of May 3, 2017, between Lowe's Companies, Inc. and U.S. Bank National Association, as successor trustee, including as exhibits thereto a form of 3.100% Notes due May 3, 2027 and a form of 4.050% Notes due May 3, 2047.	8-K	001-07898	4.1	May 3, 2017

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
4.17	Amended and Restated Credit Agreement, dated as of November 23, 2016, by and among Lowe's Companies, Inc., Bank of America, N.A., as administrative agent, swing line lender and a letter of credit issuer, Wells Fargo Bank, National Association, as syndication agent and a letter of credit issuer, Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., SunTrust Bank and U.S. Bank National Association, as co-documentation agents, and the other lenders party thereto.	8-K	001-07898	10.1	November 28, 2016
10.1	Lowe's Companies, Inc. Directors' Deferred Compensation Plan, effective July 1, 1994.*	10-Q	001-07898	10.1	December 2, 2008
10.2	Amendment No. 1 to the Lowe's Companies, Inc. Directors' Deferred Compensation Plan, effective January 31, 2009.*	10-K	001-07898	10.21	March 30, 2010
10.3	Lowe's Companies Employee Stock Purchase Plan – Stock Options for Everyone, as amended and restated effective June 1, 2012.*	DEF 14A	001-07898	Appendix B	April 13, 2012
10.4	Lowe's Companies, Inc. 1997 Incentive Plan.*	S-8	333-34631	4.2	August 29, 1997
10.5	Amendments to the Lowe's Companies, Inc. 1997 Incentive Plan, dated January 25, 1998.*	10-K	001-07898	10.16	April 19, 1999
10.6	Amendments to the Lowe's Companies, Inc. 1997 Incentive Plan, dated September 17, 1998 (also encompassing as Exhibit I thereto the Lowe's Companies, Inc. Deferred Compensation Program).*	10-K	001-07898	10.17	April 19, 1999
10.7	Amendment No. 1 to the Lowe's Companies, Inc. Deferred Compensation Program, effective as of January 1, 2005.*	10-K	001-07898	10.25	March 29, 2011

10.8	Amendment No. 2 to the Lowe's Companies, Inc. Deferred Compensation Program, effective as of December 31, 2008.*	10-K	001-07898	10.22	March 31, 2009
10.9	Lowe's Companies Benefit Restoration Plan, as amended and restated as of January 1, 2008.*	10-Q	001-07898	10.2	December 12, 2007
10.10	Amendment No. 1 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.10	March 29, 2011
10.11	Amendment No. 2 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.11	March 29, 2011

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
10.12	Amendment No. 3 to the Lowe's Companies Benefit Restoration Plan.*	10-Q	001-07898	10.1	December 1, 2011
10.13	Amendment No. 4 to the Lowe's Companies Benefit Restoration Plan.*	10-Q	001-07898	10.1	September 4, 2012
10.14	Amendment No. 5 to the Lowe's Companies Benefit Restoration Plan.*	10-Q	001-07898	10.1	December 3, 2013
10.15	Amendment No. 6 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.1	March 31, 2015
10.16	Amendment No. 7 to the Lowe's Companies Benefit Restoration Plan.*	10-K	001-07898	10.16	April 4, 2017
10.17	Form of Lowe's Companies, Inc. Management Continuity Agreement for Tier I Senior Officers used for agreements entered into prior to June 1, 2012.*	10-Q	001-07898	10.1	September 3, 2008
10.18	Form of Lowe's Companies, Inc. Management Continuity Agreement for Tier I Senior Officers used for agreements entered into on or after June 1, 2012.*	10-Q	001-07898	10.2	September 4, 2012
10.19	Form of Lowe's Companies, Inc. Management Continuity Agreement for Tier II Senior Officers.*	10-Q	001-07898	10.2	September 3, 2008
10.20	Lowe's Companies Cash Deferral Plan.*	10-Q	001-07898	10.1	June 4, 2004
10.21	Amendment No. 1 to the Lowe's Companies Cash Deferral Plan.*	10-Q	001-07898	10.1	December 12, 2007
10.22	Amendment No. 2 to the Lowe's Companies Cash Deferral Plan.*	10-Q	001-07898	10.2	December 1, 2010
10.23	Lowe's Companies, Inc. Amended and Restated	8-K	001-07898	10.1	June 3, 2005

	Directors' Stock Option and Deferred Stock Unit Plan.*				
10.24	Form of Lowe's Companies, Inc. Deferred Stock Unit Agreement for Directors.*	8-K	001-07898	10.2	June 3, 2005
10.25	Form of Lowe's Companies, Inc. Performance Share Unit Award Agreement.*	10-Q	001-07898	10.1	May 31, 2011

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
10.26	Form of Lowe's Companies, Inc. Restricted Stock Award Agreement.*	10-K	001-07898	10.27	April 4, 2017
10.27	Lowe's Companies, Inc. 2006 Long Term Incentive Plan, as amended and restated effective as of February 4, 2017.*	10-K	001-07898	10.28	April 4, 2017
10.28	Lowe's Companies, Inc. 2016 Annual Incentive Plan, effective as of February 1, 2016.*	DEF 14A	001-07898	Appendix C	April 11, 2016
10.29	Form of Lowe's Companies, Inc. 2006 Long Term Incentive Plan Non-Qualified Stock Option Agreement.*	10-K	001-07898	10.24	March 29, 2011
10.30	Amendment No. 1, dated as of May 4, 2017, to the Amended and Restated Credit Agreement, dated as of November 23, 2016, by and among Lowe's Companies, Inc., Bank of America, N.A., as administrative agent, swing line lender and a letter of credit issuer, Wells Fargo Bank, National Association, as syndication agent and a letter of credit issuer, Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., SunTrust Bank and U.S. Bank National Association, as co-documentation agents, and the other lenders party thereto.	10-Q	001-07898	10.1	June 6, 2017
12.1	Statement re Computation of Ratio of Earnings to Fixed Charges.‡				
21.1	List of Subsidiaries.‡				
23.1	Consent of Deloitte & Touche LLP.‡				
24.1	Power of Attorney (included on the Signatures page of this Annual Report on Form 10-K).‡				
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section				

	302 of the Sarbanes-Oxley Act of 2002.‡
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
99.1	Seventh Amendment to the Lowe's 401(k) Plan, effective as of February 1, 2018 (filed to include this amendment as an exhibit to the Registration Statement on Form S-8, Registration No. 033-29772).‡				
101.INS	XBRL Instance Document.‡				
101.SCH	XBRL Taxonomy Extension Schema Document.‡				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.‡				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.‡				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.‡				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.‡				

(1) Schedules have been omitted pursuant to Item 601 (b)(2) of Regulation S-K. Lowe's Companies, Inc. agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule upon request.

* Indicates a management contract or compensatory plan or arrangement.

‡ Filed herewith.

† Furnished herewith.

Item 16 – Form 10-K Summary

None.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	LOWE'S COMPANIES, INC.
	(Registrant)
April 2, 2018	By: /s/ Robert A. Niblock
Date	Robert A. Niblock Chairman of the Board, President and Chief Executive Officer
April 2, 2018	By: /s/ Marshall A. Croom
Date	Marshall A. Croom Chief Financial Officer
April 2, 2018	By: /s/ Matthew V. Hollifield
Date	Matthew V. Hollifield Senior Vice President and Chief Accounting Officer

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Each of the directors of the registrant whose signature appears below hereby appoints Marshall A. Croom, Matthew V. Hollifield and Ross W. McCanless, and each of them severally, as his or her attorney-in-fact to sign in his or her name and behalf, in any and all capacities stated below, and to file with the Securities and Exchange Commission any and all amendments to this report, making such changes in this report as appropriate, and generally to do all such things on their behalf in their capacities as directors and/or officers to enable the registrant to comply with the provisions of the Securities Exchange Act of 1934, and all requirements of the Securities and Exchange Commission.

/s/ Robert A. Niblock	Chairman of the Board, President, Chief Executive Officer and Director	April 2, 2018
Robert A. Niblock		Date
/s/ Raul Alvarez	Director	April 2, 2018
Raul Alvarez		Date
/s/ David H. Batchelder	Director	April 2, 2018
David H. Batchelder		Date
/s/ Angela F. Braly	Director	April 2, 2018
Angela F. Braly		Date
/s/ Sandra B. Cochran	Director	April 2, 2018
Sandra B. Cochran		Date
/s/ Laurie Z. Douglas	Director	April 2, 2018
Laurie Z. Douglas		Date
/s/ Richard W. Dreiling	Director	April 2, 2018
Richard W. Dreiling		Date
/s/ Robert L. Johnson	Director	April 2, 2018
Robert L. Johnson		Date
/s/ Marshall O. Larsen	Director	April 2, 2018
Marshall O. Larsen		Date
/s/ James H. Morgan	Director	April 2, 2018
James H. Morgan		Date
/s/ Bertram L. Scott	Director	April 2, 2018
Bertram L. Scott		Date
/s/ Lisa W. Wardell	Director	April 2, 2018
Lisa W. Wardell		Date
/s/ Eric C. Wiseman	Director	April 2, 2018
Eric C. Wiseman		Date