**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**

# 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.**
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**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.

## 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

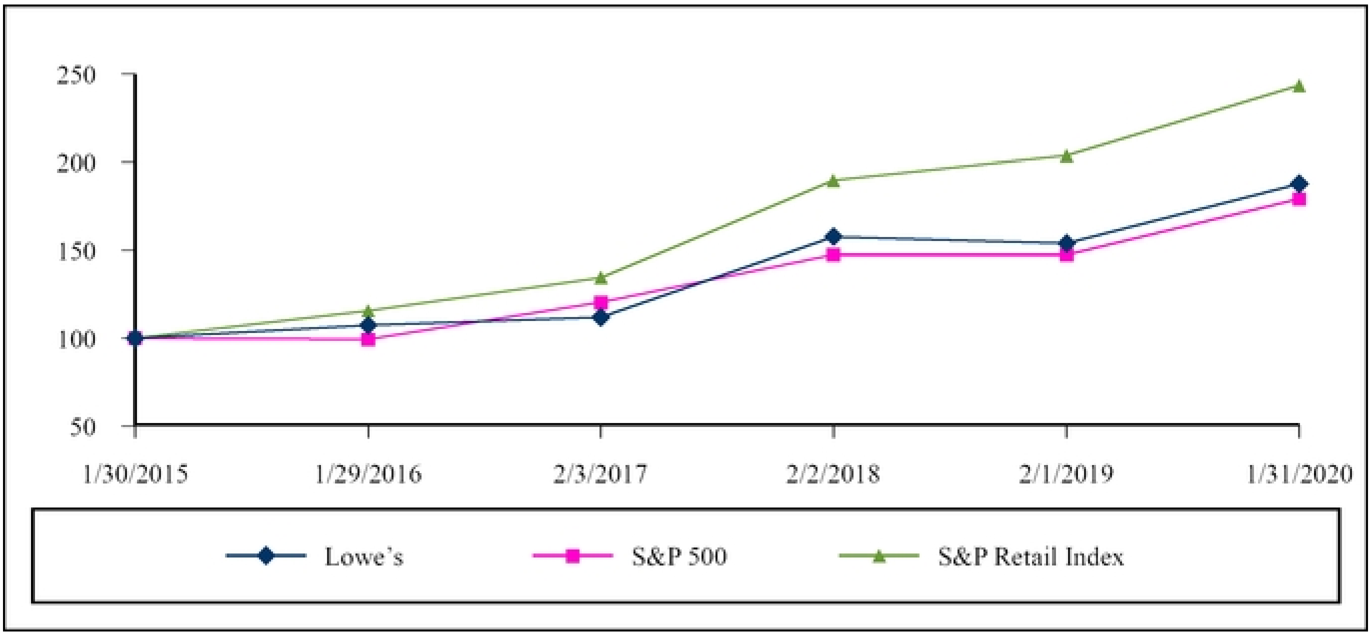
### Item 5 - Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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.




| | 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 |

**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.*

## 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

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.

## 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.*

## 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**

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## 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.*

**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.*

**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;
- 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;
- 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 $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.

*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.

The table below presents the lease-related assets and liabilities recorded on the balance sheet.

| **Leases**<br>(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**<br>(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**<br>(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*

| (In millions) | January 31, 2020 Fair Value Measurements | January 31, 2020 Impairment Losses | February 1, 2019 Fair Value Measurements | February 1, 2019 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:

| (In millions) | January 31, 2020 Carrying Amount | January 31, 2020 Fair Value | February 1, 2019 Carrying Amount | February 1, 2019 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 | Principal Amount (in millions) | Maturity Date | Fixed vs. Floating | Interest Rate | Discount (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.

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.

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.

### 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:

| (Dollars in millions) | 2019 Total Sales | 2019 % | 2018 Total Sales | 2018 % | 2017 Total Sales | 2017 % |
|---|---|---|---|---|---|---|
| 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.

## 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:

## 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.*

**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 | | | |
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| | | 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 | 8-K | 001-07898 | 4.1 | April 23, 2012 |

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.

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | |
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| | | 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 maturing in April 2026 and a form of Lowe's | 8-K | 001-07898 | 4.1 | April 20, 2016 |

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| | 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 | | | |
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| | | 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 |

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| 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 |

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | |
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| | | 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 |

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| 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 | | | |
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| | | 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 | Form of Lowe's Companies, Inc. Non-Qualified Stock Option Agreement for Tier I Officers.* | 10-Q | 001-07898 | 10.6 | June 3, 2019 |
| 10.31 | Form of Lowe's Companies, Inc. Change in Control Agreement for Tier I Senior Officers.* | 10-Q | 001-07898 | 10.7 | September 4, 2018 |

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| 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 | | | |
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| | | 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.‡ | | | | |

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| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.‡ |

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | |
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| | | 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.

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| | LOWE’S COMPANIES, INC. |
| | (Registrant) |
| March 23, 2020 | By: /s/ Marvin R. Ellison |
| Date | Marvin R. Ellison<br>President and Chief Executive Officer |
| March 23, 2020 | By: /s/ David M. Denton |
| Date | David M. Denton<br>Executive Vice President, Chief Financial 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 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.

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| /s/ Richard W. Dreiling | Chairman of the Board | March 23, 2020 |
| Richard W. Dreiling | | Date |
| /s/ Marvin R. Ellison | President,<br>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 |