LOWES COMPANIES INC
Form 10-K
April 04, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended February 3, 2017
or
o 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, NC	28117
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 704-758-1000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.50 Par Value	New York Stock Exchange (NYSE)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

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As of July 29, 2016, 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 $72.4 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 3/31/2017
Common Stock, $0.50 par value	857,332,918

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Portions of the Proxy Statement for Lowe's 2017 Annual Meeting of Shareholders	Part III

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

		Page No.
PART I		
Item 1.	Business	4
Item 1A.	Risk Factors	9
Item 1B.	Unresolved Staff Comments	14
Item 2.	Properties	14
Item 3.	Legal Proceedings	14
Item 4.	Mine Safety Disclosures	15
	Executive Officers and Certain Significant Employees of the Registrant	16
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	17
Item 6.	Selected Financial Data	18
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	34
Item 8.	Financial Statements and Supplementary Data	36
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	69
Item 9A.	Controls and Procedures	69
Item 9B.	Other Information	69
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	70
Item 11.	Executive Compensation	70
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	70
Item 13.	Certain Relationships and Related Transactions, and Director Independence	70
Item 14.	Principal Accountant Fees and Services	70
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	71
Item 16.	Form 10-K Summary	79
	Signatures	80

Table of Contents

Part I

Item 1 - Business

General Information

Lowe’s Companies, Inc. and subsidiaries (the Company or Lowe’s) is a Fortune® 50 company and the world’s second largest home improvement retailer. As of February 3, 2017, Lowe’s operated 2,129 home improvement and hardware stores, representing approximately 213 million square feet of retail selling space. These operations were comprised of 1,820 stores located across 50 U.S. states, including 87 Orchard Supply Hardware (Orchard) stores, as well as 299 stores in Canada, and 10 stores in Mexico.

During 2016, Lowe’s acquired RONA inc. (RONA) which owns and operates 245 stores in Canada as of February 3, 2017, as well as services approximately 236 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). Retail customers, comprised of individual homeowners and renters, complete a wide array of projects and vary along the spectrum of do-it-yourself (DIY) and do-it-for-me (DIFM). The Pro customer consists of two broad categories: construction trades; and maintenance, repair & operations.

Our Market

The U.S. market remains our predominant market, accounting for approximately 94% of consolidated sales as of February 3, 2017. 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. The total annual revenue reported for businesses included in NAICS 444 in 2016 was $352.3 billion, which represented an increase of 5.9% over the amount reported for the same category in 2015. The total annual revenue reported for businesses included in NAICS 444 in 2015 was $332.6 billion, which represented an increase of 4.7% over the amount reported for the same category in 2014. These figures are subject to periodic revision by the U.S. Department of Commerce.

NAICS 444 represents less than 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 furnishings stores,

and online retailers, as well as wholesalers that provide home-related products and services to homeowners, businesses, and the government. Based on our analysis of the most recent comprehensive data available, we estimate the size of the U.S. home improvement market at $775 billion in 2016, comprised of $578 billion of product sales and $197 billion of installed labor sales. That compares with $730 billion total market sales in 2015, comprised of $543 billion of product sales and $187 billion of installed labor sales. These figures are subject to periodic revision by the U.S. Department of Commerce and other third-party sources.

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.

Table of Contents

- Growth in real disposable personal income is projected to moderate to 2.3% in 2017 as compared with 2.8% growth in 2016, based on the March 2017 Blue Chip Economic Indicators®. *
- The average unemployment rate for 2017 is forecasted to decline to 4.6%, according to the March 2017 Blue Chip Economic Indicators, which would be an improvement from the 4.9% average rate in 2016. The unemployment rate should continue to trend lower as the job market continues to expand at a moderate pace.
- Recent evidence suggests that home prices will continue to increase. In 2016, home prices increased an estimated 5.4% similar to the 5.5% increase in 2015, according to the latest Federal Housing Finance Agency index. Economists generally expect the rate of home price growth to moderate in 2017.
- Housing turnover increased an estimated 5.1% in 2016 after a 7.3% increase in 2015, according to The National Association of Realtors and U.S. Census Bureau. Turnover is generally expected to continue to moderately increase in 2017, supported by persisting growth in the job market, rising incomes, and historically low mortgage rates.

These indicators are important to our business because they signal a customer’s willingness to engage in home maintenance, repair, and upgrade projects and favorably impact income available to purchase our products and services. Overall, the outlook for the home improvement industry remains positive for 2017, supported by continuing gains in jobs and incomes, home buying, and home price appreciation.

*Blue Chip Economic Indicators® (ISSN: 0193-4600) is published monthly by Aspen Publishers, 76 Ninth Avenue, New York, NY 10011, a division of Wolters Kluwer Law and Business. Printed in the U.S.A.

Our Competition

The home improvement industry includes a broad competitive landscape. We compete with other national and international home improvement warehouse chains and lumberyards in most of our trade areas. We also compete with traditional hardware, plumbing, electrical, home supply retailers, and maintenance and repair organizations. In addition, we compete with general merchandise retailers, warehouse clubs, and online and other specialty retailers as well as service providers that install home improvement products. Location of stores continues to be a key competitive factor in our industry; however, the increasing use of technology and the simplicity of online shopping also underscore the importance of omni-channel capabilities as a competitive factor. We differentiate ourselves from our competitors by providing better customer experiences while delivering superior value in products and service. See further discussion of competition in Item 1A, “Risk Factors”, of this Annual Report.

Products and Services

Our Products

Product Selection

To meet customers’ varying home improvement needs, we offer a complete line of products for maintenance, repair, remodeling, and decorating. We offer home improvement products in the following categories: Lumber & Building Materials; Tools & Hardware; Appliances; Fashion Fixtures; Rough Plumbing & Electrical; Seasonal Living; Lawn & Garden; Paint; Millwork; Flooring; Kitchens; Outdoor Power Equipment; and Home Fashions. A typical Lowe’s-branded home improvement store stocks approximately 37,000 items, with hundreds of thousands of additional items available through our Special Order Sales system and various online selling channels. See Note 17 of the Notes to Consolidated Financial Statements included in Item 8, “Financial Statements and Supplementary Data”, of this Annual Report for historical revenues by product category for each of the last three fiscal years.

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

National Brand-Name Merchandise

In many product categories, customers look for a familiar and trusted national brand to instill confidence in their purchase. Lowe’s home improvement stores carry a wide selection of national brand-name merchandise such as Whirlpool®, GE®, LG®, and Samsung® appliances, Stainmaster® carpets, Valspar® paints and stains, Pella® windows and doors, Sylvania® light bulbs, Dewalt® power tools, Hitachi® pneumatic tools, Owens Corning® insulation and roofing, GAF® roofing, James Hardie® fiber cement siding, Husqvarna® outdoor power equipment, Werner® ladders, and many more. In 2016, we added

Table of Contents

brand name merchandise such as Pergo® hardwood flooring, Quoizel® lighting, Marshalltown® masonry tools, and a suite of Nest® products to our portfolio. Our merchandise selection provides the retail and Pro customer a one-stop shop for a wide variety of national brand-name merchandise needed to complete home improvement, repair, maintenance, or construction projects.

Private Brands
Private brands are an important element of our overall portfolio, helping to provide significant value and coordinated style across core categories. We sell private brands in several of our product categories. Some of Lowe's most important private brands include Kobalt® tools, allen+roth® home décor products, Blue Hawk® home improvement products, Project Source® basic value products, Portfolio® lighting products, Garden Treasures® lawn and patio products, Utilitech® electrical and utility products, Reliabilt® doors and windows, Aquasource® faucets, sinks and toilets, Harbor Breeze® ceiling fans, Top Choice® lumber products and Iris® home automation and management products.

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

To efficiently move product from our vendors to our stores and maintain in-stock levels, we own and operate distribution facilities that enable products to be received from vendors, stored and picked, or cross-docked, and then shipped to our retail locations or directly to customers. These facilities include 15 highly-automated Regional Distribution Centers (RDC) in the United States. On average, each domestic RDC serves approximately 118 stores. We also own and operate ten distribution centers, including four lumber yards, to serve our Canadian market, and we lease and operate a distribution facility to serve our Orchard stores. Additionally, we have a service agreement with a third party logistics provider to manage a distribution facility to serve our stores in Mexico.

In addition to the RDCs, we also operate coastal holding facilities, transload facilities, appliance distribution centers, and flatbed distribution centers. The flatbed distribution centers distribute merchandise that requires special handling due to size or type of packaging such as lumber, boards, panel products, pipe, siding, ladders, and building materials. Collectively, our facilities enable our import and e-commerce, as well as parcel post eligible products, to get to their destination as efficiently as possible. Most parcel post items can be ordered by a customer and delivered within two business days at standard shipping rates.

In fiscal 2016, on average, approximately 80% of the total dollar amount of stock merchandise we purchased was shipped through our distribution network, while the remaining portion was shipped directly to our stores from vendors.

Our Services

Installed Sales
We offer installation services through independent contractors in many of our product categories, with Appliances, Flooring, Kitchens, Lumber & Building Materials, and Millwork accounting for the majority of installed sales. Our Installed Sales model, which separates selling and project administration tasks, allows our sales associates to focus on project selling, while project managers ensure that the details related to installing the products are efficiently executed. Installed Sales, which includes both product and labor, accounted for approximately 7% of total sales in fiscal 2016.

Extended Protection Plans and Repair Services

We offer extended protection plans in Kitchens, Appliances, Tools & Hardware, Outdoor Power Equipment, Seasonal Living, Rough Plumbing Electrical Fixtures, and Garage Door Openers. These protection plans provide customers with product protection that enhances or extends coverage previously offered by the manufacturer's warranty. The protection plans provide in-warranty and out-of-warranty repair services for major appliances, outdoor power equipment, tools, grills, fireplaces, air conditioners, water heaters, and other eligible products through our stores or in the home through the Lowe's Authorized Service Repair Network. We offer replacement plans for products in most of these categories when priced below $300, or otherwise specified category specific price points. Our contact center takes customers' calls, assesses the problems, and facilitates resolutions, making after-sales service easier for our customers because we manage the entire process.

Selling Channels

We are continuing our progress towards becoming an omni-channel retail company, 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,

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Table of Contents

more than half of our customers conduct research online before making an in-store purchase. For purchases made on Lowes.com, approximately 60% are picked up in-store, 10% are delivered from a store, and 30% are parcel shipped. For the 60% picked up in-store, 40% of those customers elect to purchase additional products when they arrive in our stores. 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 1,797 Lowe's-branded home improvement stores, inclusive of 1,733 in the U.S., 54 in Canada and 10 in Mexico, are generally open seven days per week and average approximately 112,000 square feet of retail selling space, plus approximately 32,000 square feet of outdoor garden center selling space. The 245 stores acquired in the RONA acquisition operate under various complementary store formats that address target customers and occasions. In addition, we operate 87 Orchard hardware stores located throughout California, Oregon, and Florida that also serve home improvement customers and average approximately 36,000 square feet of retail selling space. Our home improvement stores in the U.S. and Canada offer similar products and services, with certain variations based on local market factors; however, Orchard stores are primarily focused on paint, repair, and backyard products. We continue to develop and implement tools to make our sales associates more efficient and to integrate our order management and fulfillment processes. Our home improvement stores have Wi-Fi capabilities that provide customers with internet access, making information available quickly to further simplify the shopping experience.

Online

Through our websites and mobile applications, we seek to empower consumers by providing a 24/7 shopping experience, online product information, customer ratings and reviews, online buying guides and how-to videos and other information. These tools help consumers make more informed purchasing decisions and give them increased confidence to undertake home improvement projects. In 2016, sales through our online selling channels accounted for approximately 3.5% of our total sales. We enable customers to choose from a variety of fulfillment options, including buying online and picking up in-store as well as delivery or parcel shipment to their homes.

In addition, our LowesForPros.com online tool allows for easy online ordering for our Pro customers, and their choice of in-store pick-up or delivery, saving them time and money.

On-Site

We have on-site specialists available for retail and Pro customers to assist them in selecting products and services for their projects. Our Account Executives ProServices meet with Pro customers at their place of business or on a job site and leverage stores within the area to ensure we meet customer needs for products and resources. Our Project Specialist Exteriors (PSE) program is available in all U.S. Lowe's home improvement stores to discuss exterior projects such as roofing, siding, fencing, and windows, whose characteristics lend themselves to an in-home consultative sales approach. In addition, our Project Specialist Interiors (PSI) program is also now available in all U.S. Lowe's home improvement stores to provide similar consultative services on interior projects such as kitchens and bathrooms.

Contact Centers

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

Employees

As of February 3, 2017, we employed approximately 190,000 full-time and 100,000 part-time employees. Our employees in Mexico, and certain employees in Canada, are subject to collective bargaining agreements. No other employees are subject to collective bargaining agreements. Management considers its relations with employees to be good.

Seasonality and Working Capital

The retail business in general is subject to seasonal influences, and our business is, to some extent, seasonal. Historically, we have realized the highest volume of sales during our second fiscal quarter (May, June and July) and the lowest volume of sales during our fourth fiscal quarter (November, December and January). Accordingly, our working capital requirements have historically been greater during our fourth fiscal quarter as we build inventory in anticipation of the spring selling season and as we experience lower fourth fiscal quarter sales volumes. We fund our working capital requirements primarily through cash

Table of Contents

flows generated from operations, but also with short-term borrowings, as needed. For more detailed information, see the Financial Condition, Liquidity and Capital Resources section in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this Annual Report.

Intellectual Property

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

Environmental Stewardship

Lowe's knows that operating a business can impact the environment and our communities, and we continue to work to positively influence that impact. It is a responsibility we take seriously.

In 2016, we created a Sustainability & Product Stewardship Council, led by senior executives, to review significant strategies and policies regarding sustainability and product stewardship, and make recommendations across the organization. The company initiated work on a comprehensive sustainability strategy that creates business value and supports our purpose, and we expect to finalize that strategy during 2017.

Each year, Lowe's participates in the Carbon Disclosure Project to track our carbon footprint. In 2016, Lowe's externally verified its greenhouse gas emissions data collection and analysis to validate our findings and increase confidence in our reporting. In 2016, 32 retail locations upgraded to interior light-emitting diode (LED) lighting, and seven new stores opened with LED lighting already installed. We plan to continue to implement interior LED lighting and seek solutions for specific lighting needs to enhance energy efficiency as well as the customer experience.

In 2016, we expanded our test of a state-of-the-art building management system (BMS) to 100 stores. The BMS monitors equipment performance and provides valuable information that helps facility managers manage energy consumption to reduce costs and carbon emissions. Lowe's conducted energy efficiency audits of heating, ventilation and air conditioning systems, and will be implementing upgrades to a number of systems in 2017.

Lowe's is committed to promoting sustainable practices in the transportation industry. We collaborate with the Environmental Protection Agency's SmartWay program to reduce transportation emissions by creating incentives for freight contractors to improve efficiency, and are proud to be one of only nine companies in 2016 to receive the Environmental Protection Agency SmartWay Excellence Award in the logistics and shipping category-the only retailer to achieve this honor eight years in a row.
Our recycling program continues to be a priority as we seek to reduce landfill waste and increase recycling at our stores and distribution centers. We operate in-store recycling centers at every Lowe's store in the continental United States, encouraging customers to recycle compact fluorescent lamps, plastic bags, rechargeable batteries and cell phones. We offer haul-away service to customers who purchase replacement appliances, and our Garden Centers also accept plastic plant trays and pots for recycling.

Managing our water resources is essential in regions experiencing drought conditions. In 2016, we installed HydroPoint irrigation technology that combines real-time weather data with site-specific information to reduce water

consumption and save on utility costs. The systems are in 200 locations and we expect to expand to 200 more in the coming year.

More than ever, customers expect products that are safe, socially and environmentally responsible, and also affordable. Lowe’s increasingly provides product choices that save energy and water, reduce potentially harmful chemicals, or mitigate safety concerns for their families. We also engage with our product suppliers, manufacturers and other external stakeholders to ensure we carry the most innovative new products.

For more information about Lowe’s environmental efforts, please visit Lowes.com/SocialResponsibility.

Table of Contents

Investing in Our Communities

Lowe's has a long and proud history of supporting local communities through public education and community improvement projects, beginning with the creation of the Lowe's Charitable and Educational Foundation in 1957. In 2016, Lowe's and the Lowe's Charitable and Educational Foundation donated approximately $38 million to schools and community organizations in the United States, Canada, and Mexico, including but not limited to the following discussed below.

Our commitment to improving educational opportunities is best exemplified by our signature education grant program, Lowe's Toolbox for Education®, and 2016 marked the program's 11-year anniversary. In 2016, Lowe's Toolbox for Education® provided approximately $7 million in grants and since inception has provided funding improvements at nearly 12,000 schools, benefiting more than six million children.

Each year, we work with national nonprofit partners to strengthen and stabilize neighborhoods in the communities we serve. In 2016, Lowe's contributed $7 million and teamed with Habitat for Humanity and Rebuilding Together to provide housing solutions in partnership with families across the country. We also continued to build on our longstanding partnerships with the Boys & Girls Clubs of America, SkillsUSA, The Nature Conservancy, and Keep America Beautiful to improve communities and build tomorrow's leaders.

Lowe's is also committed to helping residents of the communities we serve by being there when we're needed most - when a natural disaster threatens and in the recovery that follows. In 2016, Lowe's donated nearly $2.1 million and mobilized hundreds of Lowe's Heroes employee volunteers to help families recover from disasters across the United States.

For the second year in a row, 100% of Lowe's stores in the United States participated in a Lowe's Heroes volunteer project.

For more information on Lowe's partnerships and latest community improvement projects, visit Lowes.com/SocialResponsibility.

Available Information

Our Annual Report, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge through our internet website at www.Lowes.com/investor, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The public may also read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A - Risk Factors

We have developed a risk management process using periodic surveys, external research, planning processes, risk mapping, analytics and other tools to identify and evaluate the operational, financial, environmental, reputational, strategic and other risks that could adversely affect our business. For more information about our risk management framework, which is administered by our Chief Financial Officer and includes developing risk mitigation controls and procedures for the material risks we identify, see the description included in the definitive Proxy Statement for our 2017 annual meeting of shareholders (as defined in Item 10 of Part III of this Annual Report) under "Board's Role in the Risk Management Process."

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

You should read these risk factors in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and our consolidated financial statements and related notes in Item 8. There also may be other factors that we cannot anticipate or that are not described in this Annual Report generally because we do not currently perceive them to be material. Those factors could cause results to differ materially from our expectations.

Table of Contents

We may be unable to adapt our business concept in a rapidly evolving retail environment to address the changing shopping habits, demands and demographics of our customers, or realize the intended benefits of organizational change initiatives.

The home improvement retail environment, like the retail environment generally, is rapidly evolving, and adapting our business concept to respond to our customers' changing shopping habits and demands and their changing demographics is critical to our future success. Our success is dependent on our ability to identify and respond to the economic, social, style and other trends that affect demographic and consumer preferences in a variety of our merchandise categories and service offerings. Customers' expectations about how they wish to research, purchase and receive products and services have also evolved. It is difficult to predict the mix of products and services that our customers will demand. Failure to identify such trends, adapt our business concept, and implement change, growth, and productivity initiatives successfully could negatively affect our relationship with our customers, the demand for the home improvement products and services we sell, the rate of growth of our business, our market share, and results of operations.

We may not be able to realize the benefits of our strategic initiatives focused on omni-channel sales and marketing presence if we fail to deliver the capabilities required to execute on them.

Our interactions with customers has evolved into an omni-channel experience as they increasingly are using computers, tablets, mobile phones and other devices to shop in our stores and online and provide feedback and public commentary about all aspects of our business. Omni-channel retail is quickly evolving, and we must anticipate and meet our customers' expectations and counteract new developments and technology investments by our competitors. Our customer-facing technology systems must appeal to our customers, function as designed and provide a consistent customer experience. The success of our strategic initiatives to adapt our business concept to our customers' changing shopping habits and demands and changing demographics will require us to deliver large, complex programs requiring more integrated planning, initiative prioritization and program sequencing. These initiatives will require new competencies in many positions, and our management, employees and contractors will have to adapt and learn new skills and capabilities. To the extent they are unable or unwilling to make these transformational changes, we may be unable to realize the full benefits of our strategic initiatives and expand our relevant market access. Our results of operations, financial condition or business prospects could also be adversely affected if we fail to provide a consistent experience for our customers, regardless of sales channel, if our technology systems do not meet our customers' expectations, if we are unable to counteract new developments and innovations implemented by our competitors, or if we are unable to attract, retain, and manage the talent succession of additional personnel at various levels of the Company who have the skills and capabilities we need to implement our strategic initiatives and drive the changes that are essential to successfully adapting our business concept in the rapidly changing retail environment.

Our business and our reputation could be adversely affected by the failure to protect sensitive customer, employee, vendor or Company information or to comply with evolving regulations relating to our obligation to protect our systems, assets and such information from the threat of cyber-attacks.

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 electronic security breaches leading to unauthorized release of sensitive customer information have occurred in recent years with increasing frequency at a number of major U.S. companies, including several large retailers, despite widespread recognition of the cyber-attack threat and improved data protection methods. As with many other retailers, we receive and store certain personal information about our customers, employees and vendors. Additionally, we use third-party service providers for services, such as authentication, content delivery, back-office support and other functions. Despite our continued vigilance and investment in information security, we or our third-party service providers may be unable to adequately anticipate or prevent a breach in our or their systems that results in the unauthorized release of sensitive data. Should this occur, it may have a material adverse effect on our reputation, drive customers away and lead to financial losses from remedial actions, or potential liability, including possible punitive damages. A security breach resulting in the

unauthorized release of sensitive data from our or our third-party service providers' information systems could also materially increase the costs we already incur to protect against such risks. In addition, as the regulatory environment relating to retailers and other companies' obligation to protect such sensitive data becomes stricter, a material failure on our part to comply with applicable regulations could subject us to fines or other regulatory sanctions and potentially to lawsuits.

We are subject to payments-related risks that could increase our operating costs, expose us to fraud, subject us to potential liability and potentially disrupt our business.
We accept payments using a variety of methods, including credit cards, debit cards, credit accounts, our private label and co-branded credit cards, gift cards, direct debit from a customer's bank account, consumer invoicing and physical bank checks, and we may offer different payment options over time. These payment options subject us to many compliance requirements, including, but not limited to, compliance with payment card association operating rules, including data security rules, certification requirements, rules governing electronic funds transfers and Payment Card Industry Data Security Standards. They also subject us to potential fraud by criminal elements seeking to discover and take advantage of security vulnerabilities

Table of Contents

that may exist in some of these payment systems. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, electronic checks, gift cards and promotional financing, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected.

As customer-facing technology systems become an increasingly important part of our omni-channel sales and marketing strategy, the failure of those systems to perform effectively and reliably could keep us from delivering positive customer experiences.

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

If we fail to hire, train, manage and retain qualified sales associates and specialists with expanded skill sets or corporate support staff with the capabilities of delivering on strategic objectives, we could lose sales to our competitors and our labor costs, resulting from operations or the execution of corporate strategies, could be negatively affected.

Our customers, whether they are homeowners, renters or commercial businesses, expect our sales associates and specialists to be well trained and knowledgeable about the products we sell and the home improvement services we provide. We compete with other retailers for many of our sales associates and specialists, and we invest significantly in them with respect to training and development to strive for high engagement. Increasingly, our sales associates and specialists must have expanded skill sets, including, in some instances, the ability to do in-home or telephone sales. A critical challenge we face is attracting and retaining a sufficiently diverse workforce that can deliver relevant, culturally competent and differentiated experiences for a wide variety of culturally diverse customers. In fact, in many of our stores, our employees must be able to serve customers whose primary language and cultural traditions are different from their own. Additionally, in order to deliver on the omni-channel expectations of our customers, we rely on the specialized training and capabilities of corporate support staff which are broadly sought after by our competitors. If we are unable to hire, train, manage and retain qualified sales associates and specialists, the quality of service we provide to our customers may decrease and our results of operations could be negatively affected. Furthermore, our ability to meet our labor needs while controlling our costs is subject to a variety of external factors, including wage rates, the availability of and competition for talent, health care and other benefit costs, our brand image and reputation, changing demographics, and adoption of new or revised employment and labor laws and regulations. Periodically, we are subject to labor organizing efforts, and if we become subject to collective bargaining agreements in the future, it could adversely affect how we operate our business and adversely affect our labor costs and our ability to retain a qualified workforce.

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, 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, and, if we do not realize any anticipated benefits from such transactions, we may be exposed to additional liabilities of any acquired business or joint venture and we may be exposed to litigation in connection with the strategic transaction. Further, we may finance these strategic transactions by incurring additional debt, which could increase leverage or impact our ability to access capital in the future.

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

We have many competitors who could take sales and market share from us if we fail to execute our merchandising, marketing and distribution strategies effectively, or if they develop a substantially more effective or lower cost means of meeting customer needs, resulting in a negative impact on our business and results of operations.
We operate in a highly competitive market for home improvement products and services and have numerous large and small, direct and indirect competitors. The principal competitive factors in our industry include convenience, customer service, quality and price of merchandise and services, in-stock levels, and merchandise assortment and presentation. We face growing competition from online and multi-channel retailers who have a similar product or service offering. Customers are increasingly able to quickly comparison shop and determine real-time product availability and price using digital tools. Our failure to respond effectively to competitive pressures and changes in the markets for home improvement products and services could affect our financial performance. Moreover, changes in the promotional pricing and other practices of our competitors, including the effects of competitor liquidation activities, may impact our results.

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

Failure of a key vendor or service provider that we cannot quickly replace could disrupt our operations and negatively impact our business, financial condition and results of operations.

We rely upon a number of vendors as the sole or primary source of some of the products we sell. We also rely upon many independent service providers for technology solutions and other services that are important to many aspects of our business. Many of these vendors and service providers have certain products or specialized skills needed to support our business concept and our strategies. If these vendors or service providers discontinue operations or are unable to perform as expected or if we fail to manage them properly and we are unable to replace them quickly, our business could be adversely affected, at least temporarily, until we are able to replace them and potentially, in some cases, permanently.

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 continuing to be the dominant import source. The results of the November 2016 U.S. elections may signal a change in trade policy between the United States and other countries. Because we source a large percentage of our merchandise from outside the United States, major changes in tax policy or trade relations, such as the disallowance of tax deductions for imported

Table of Contents

merchandise or the imposition of additional tariffs or duties on imported products, could adversely affect our business, results of operations, effective income tax rate, liquidity and net income.

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

Failure to effectively manage our third-party installers could result in increased operational and legal risks and negatively impact our business, financial condition and results of operations.
We use third-party installers to provide installation services to our customers, and, as the general contractor, we are subject to regulatory requirements and risks, applicable to general contractors, including the management of the permitting, licensing and quality of our third-party installers. Our failure to effectively manage such requirements, the third-party installers, and our internal processes regarding installation services could result in lost sales, fines and lawsuits, as well as damage to our reputation, which could negatively affect our business.

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

We must comply with various and multiple laws and regulations that differ substantially in each area where we operate. Changes in existing or new laws and regulations or regulatory enforcement priorities, or our inability to comply with such laws and regulations, could adversely affect our business, financial condition and results of operations.
Laws and regulations at the local, regional, state, federal and international levels change frequently, and the changes can impose significant costs and other burdens of compliance on our business and our vendors. If we fail to comply with these laws, rules and regulations, or the manner in which they are interpreted or applied, we may be subject to government enforcement action, litigation, damage to our reputation, civil and criminal liability, damages, fines and penalties, and increased cost of regulatory compliance, any of which could adversely affect our results of operations and financial performance. These laws, rules and regulations include, but are not limited to, import and export

requirements, U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to governmental officials. Although we have implemented policies and procedures to help ensure compliance with these laws, rules and regulations, there can be no certainty that our employees and third parties with whom we do business will not take actions in violation of our policies or laws. Many of these laws, rules and regulations are complex, evolving and are subject to varying interpretations and enforcement actions. Any changes in regulations, the imposition of additional regulations, or the enactment of any new legislation could have an adverse impact, directly or indirectly, on our financial condition and results of operations. We may also be subject to investigations or audits by governmental authorities and regulatory agencies as a result of enforcing existing laws and regulations or changes in enforcement priorities, which can occur in the ordinary course of business or which can result from increased scrutiny from a particular agency towards an industry, country or practice.

Table of Contents

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

Our financial performance could be adversely affected if our management information systems are seriously disrupted or we fail to properly maintain, improve, upgrade and expand those systems.
An important part of 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, telecommunications failures, and we may incur significant expense, data loss as well as an erosion of customer confidence. Additionally, we continually make investments in our systems which may introduce disruption. Our financial performance could be adversely affected if our management information systems are seriously disrupted or we fail to properly maintain, improve, upgrade and expand those systems.

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

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

Item 1B - Unresolved Staff Comments

None.

Item 2 - Properties

At February 3, 2017, our properties consisted of 2,129 stores in the U.S., Canada, and Mexico with a total of approximately 213 million square feet of selling space. Of the total stores operating at February 3, 2017, approximately 79% are owned, which includes stores on leased land, with the remainder being leased from third parties. We also operate regional distribution centers and other facilities to support distribution and fulfillment, as well as data centers and various support offices. Our executive offices are located in Mooresville, North Carolina.

Item 3 - Legal Proceedings

We are, from time to time, party to various legal proceedings considered to be in the normal course of business, none of which are considered material. We do not believe that any of these proceedings, individually or in the aggregate, would be expected to have a material adverse effect on our results of operations, financial position, or cash flows.

Table of Contents

Item 4 - Mine Safety Disclosures

Not applicable.

Table of Contents

EXECUTIVE OFFICERS AND CERTAIN SIGNIFICANT EMPLOYEES OF THE REGISTRANT

Set forth below is a list of names and ages of the executive officers and certain significant employees 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
Robert A. Niblock	54	Chairman of the Board, President and Chief Executive Officer since 2011.
Marshall A. Croom	56	Chief Financial Officer since March 2017; Chief Risk Officer, 2012 – March 2017; Senior Vice President and Chief Risk Officer, 2009 – 2012.
Rick D. Damron	54	Chief Operating Officer since 2012; Executive Vice President, Store Operations, 2011 – 2012.
Matthew V. Hollifield	50	Senior Vice President and Chief Accounting Officer since 2005.
Richard D. Maltsbarger	41	Chief Development Officer and President of International since 2015; Chief Development Officer, 2014 – 2015; Business Development Executive, 2012 – 2014; Senior Vice President, Strategy, 2011 – 2012.
Ross W. McCanless	59	Chief Legal Officer, Secretary and Chief Compliance Officer since 2016; General Counsel, Secretary and Chief Compliance Officer, 2015 – 2016; Chief Legal Officer, Extended Stay America, Inc. and ESH Hospitality, Inc., 2013 – 2014; Chief Legal Officer, HVM, L.L.C., 2012 – 2013.
Michael P. McDermott	47	Chief Customer Officer since 2016; Chief Merchandising Officer, 2014 – 2016; Senior Vice President and General Merchandising Manager – Building and Maintenance, 2013 – 2014; Sales Leader – Appliances, General Electric Company, 2011 – 2013.
N. Brian Peace	51	Corporate Administration Executive since 2012; Senior Vice President, Corporate Affairs, 2006 – 2012.
Paul D. Ramsay	52	Chief Information Officer since 2014; Senior Vice President, Information Technology, 2011 – 2014.
Jennifer L. Weber	50	Chief Human Resources Officer since 2016; Executive Vice President, External Affairs and Strategic Policy, Duke Energy Corporation, 2014 – 2016; Executive Vice President and Chief Human Resources Officer, Duke Energy Corporation, 2011 – 2014.

Table of Contents

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 31, 2017, there were 23,575 holders of record of Lowe’s common stock. The following table sets forth, for the periods indicated, the high and low sales prices per share of the common stock as reported by the NYSE Composite Tape and the dividends per share declared on the common stock during such periods.

	Fiscal 2016			Fiscal 2015		
	High	Low	Dividend	High	Low	Dividend
1st Quarter	$77.63	$62.62	$ 0.28	$76.25	$66.17	$ 0.23
2nd Quarter	83.65	74.56	0.35	73.93	65.83	0.28
3rd Quarter	82.68	66.71	0.35	74.78	64.22	0.28
4th Quarter	76.47	64.87	0.35	78.13	66.93	0.28

Total Return to Shareholders

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

The following table and graph compare the total returns (assuming reinvestment of dividends) of the Company’s common stock, the S&P 500 Index (S&P 500) and the S&P Retailing Industry Group Index (S&P Retail Index). The graph assumes $100 invested on February 3, 2012 in the Company’s common stock and each of the indices.

	2/3/2012	2/1/2013	1/31/2014	1/30/2015	1/29/2016	2/3/2017
Lowe’s	$ 100.00	$ 144.61	$ 176.36	$ 262.41	$ 281.77	$ 293.31
S&P 500	100.00	115.06	138.42	158.11	157.06	190.14
S&P Retail Index	$ 100.00	$ 125.89	$ 157.75	$ 189.45	$ 221.27	$ 260.15

Table of Contents

Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of the Company's common stock made during the fourth quarter of fiscal 2016:

(In millions, except average price paid per share)	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
October 29, 2016 – November 25, 2016 [3]	3.4	$ 70.95	3.4	$ 367
November 26, 2016 – December 30, 2016	2.1	72.97	2.1	215
December 31, 2016 – February 3, 2017 [3]	2.2	72.09	2.2	5,076
As of February 3, 2017	7.7	$ 71.83	7.7	$ 5,076

[1] During the fourth quarter of fiscal 2016, the Company repurchased an aggregate of 7.7 million shares of its common stock. The total number of shares purchased also includes an insignificant number of shares withheld from employees to satisfy either the exercise price of stock options or the statutory withholding tax liability upon the vesting of restricted stock awards.

[2] On March 20, 2015, the Company announced that its Board of Directors authorized a $5.0 billion repurchase program with no expiration. On January 27, 2017, the Company announced that its Board of Directors authorized an additional $5.0 billion of share repurchases with no expiration. As of February 3, 2017, the Company had $5.1 billion share repurchases remaining available under the program. In fiscal 2017, the Company expects to repurchase shares totaling $3.5 billion through purchases made from time to time either in the open market or through private off market transactions in accordance with SEC regulations.

[3] In November 2016, the Company entered into an Accelerated Share Repurchase (ASR) agreement with a third-party financial institution to repurchase $190 million of the Company's common stock. Pursuant to the agreement, the Company paid $190 million to the financial institution and received an initial delivery of 2.4 million shares. In January 2017, the Company finalized the transaction and received an additional 0.2 million shares. The average price paid per share in settlement of the ASR agreement included in the table above was determined with reference to the volume-weighted average price of the Company's common stock over the term of the ASR agreement. See Note 9 to the consolidated financial statements included in this Annual Report.

Item 6 - Selected Financial Data

Selected Statement of Earnings Data (In millions, except per share data)	2016 [1]	2015	2014	2013	2012
Net sales	$65,017	$59,074	$56,223	$53,417	$50,521
Gross margin	22,464	20,570	19,558	18,476	17,327
Operating income	5,846	4,971	4,792	4,149	3,560
Net earnings	3,093	2,546	2,698	2,286	1,959
Basic earnings per common share	3.48	2.73	2.71	2.14	1.69
Diluted earnings per common share	3.47	2.73	2.71	2.14	1.69
Dividends per share	$1.33	$1.07	$0.87	$0.70	$0.62

Selected Balance Sheet Data					
Total assets	$34,408	$31,266	$31,721	$32,471	$32,441
Long-term debt, excluding current maturities	$14,394	$11,545	$10,806	$10,077	$9,022

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

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

The following discussion and analysis summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the three-year period ended February 3, 2017 (our fiscal years 2016, 2015 and 2014). Fiscal year 2016 contains 53 weeks of operating results compared to fiscal years 2015 and 2014 which contain 52 weeks. Unless otherwise noted, all references herein for the years 2016, 2015 and 2014 represent the fiscal years ended February 3, 2017, January 29, 2016 and January 30, 2015, respectively. We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. This discussion should be read in conjunction with our consolidated financial statements and notes to the consolidated financial statements included in this Annual Report that have been prepared in accordance with accounting principles generally accepted in the United States of America. This discussion and analysis is presented in six sections:

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

EXECUTIVE OVERVIEW

Net sales for 2016 were $65.0 billion, a 10.1% increase over fiscal year 2015. The increase in total sales was driven by an increase in comparable sales, the acquisition of RONA in May 2016, the 53rd week, and new stores. Comparable sales increased 4.2%, driven by a comparable average ticket increase of 2.5% and a comparable transaction increase of 1.6%. The addition of RONA and the 53rd week contributed 3.8% and 1.6%, respectively, to the sales growth for 2016. Net earnings increased 21.5% to $3.1 billion. Diluted earnings per common share increased 27.1% in fiscal year 2016 to $3.47 from $2.73 in 2015. Adjusting 2016 and 2015 amounts for certain significant discrete items not originally contemplated in the business outlooks for those respective years, adjusted diluted earnings per common share increased 21.3% in fiscal year 2016 to $3.99 from $3.29 in 2015 (see discussion on non-GAAP financial measures beginning on page 22).

For 2016, cash flows from operating activities were approximately $5.6 billion, with $1.2 billion used for capital expenditures. Continuing to deliver on our commitment to return excess cash to shareholders, the Company repurchased 46.7 million shares of stock through the share repurchase program for $3.5 billion and paid $1.1 billion in dividends during the year.

Throughout 2016, we remained committed to our key priorities including differentiating ourselves with better customer experiences and improving our product and service offering for the Pro customer. In addition, we continued to enhance our omni-channel experiences, driving customer engagement by delivering convenience, inspiration, expertise, and efficiency across the most relevant moments of the customer's project journey.

We continued to leverage our larger store formats and expertise in customer experience design to create product sets to inspire customers to envision a variety of possibilities in their own homes. Our customer experience design work is rooted in research around customers' expectations and how they think about home improvement projects. Whether it is showcasing a series of kitchen vignettes to highlight all the design elements of a kitchen remodel, or a smaller project, such as a bathroom lighting upgrade, we simplify presentation by grouping fixtures by style and collection in order to provide a cohesive decorating solution. By providing an integrated assortment of products, inspiring and intuitive presentation and display, and optimal service components across all selling channels, we are able to provide better customer experiences that differentiate us in the marketplace.

We remained committed to building upon our strong foundation with the Pro customer by continuing to advance our product and service offerings to meet their unique needs. Throughout the year, we made improvements to inventory depth, national and local brand assortment, and the strength of our service offering through the use of our Account Executive ProServices teams. We enhanced features and functionality of LowesForPros.com, which provides an e-commerce platform where the Pro customer can develop requisition lists, access purchase history, create custom catalogs, and simplify online ordering, saving time and allowing them to run their business more efficiently.

We continued to enhance our omni-channel capabilities during the year. We upgraded the Lowes.com shopping experience with improved product content and search functionality inclusive of upgrades such as refined search algorithms, expanded

Table of Contents

content recommendations, improved click-to-chat capabilities, larger images, and expanded product views, and video content. We have built an array of tools to help our customers visualize their projects and bring them to life, displaying project ideas on Pinterest, Facebook, and our own channels on Apple TV, Fire TV, and Roku in addition to lowes.com and YouTube. During 2016, we completed the national rollout of our interior project specialist program. Both interior and exterior project specialists are now available across all U.S. home improvement stores to meet with customers in their homes to design, plan, and complete their home improvement projects. This in-home selling program, which is a critical element of our omni-channel strategy, represents a differentiated capability in capturing and serving customers’ interior and exterior project demand.

During the second quarter of 2016, we also completed our acquisition of RONA, one of Canada’s largest retailers and distributors of hardware, building materials, home renovation, and gardening products. The acquisition enables the Company to accelerate its growth strategy in the Canadian home improvement market, and we continued to make progress on the integration of RONA in the second half of the year. We remain focused on three critical factors to enable us to enhance our competitiveness and profitability in Canada and position us to capitalize on the long-term potential of the market. These include enhancing customer relevance, expanding customer reach by serving a new portion of the market, and driving increased profitability by leveraging our shared supplier relationships, enhanced scale, and private-label brand capabilities while eliminating RONA’s public company costs.

Looking Forward

Economic forecasts for 2017 suggest the outlook for the home improvement industry remains favorable as the economy continues to be led by growth in consumer spending. The home improvement industry is poised to grow its share of wallet as a percent of overall consumer spending, given sustained home price recovery and continued job and income gains. In addition, consumer balance sheets are strong as debt service ratios are near record lows and access to credit is gradually improving. Along with stronger incomes and rising home prices, we believe stronger household financial conditions will support discretionary home improvement spending. These macro factors should continue to contribute to household formation, which will sustain home buying and related spending as homeowners upgrade and refresh their homes.

In 2017, we look to build upon our strong foundation to better serve the needs of a rapidly changing customer and capitalize on a favorable macroeconomic backdrop. We are focused on three strategic objectives to drive value for our customers and shareholders. First, we are dedicated to expanding the reach of home improvement and driving profitable share gains. We are working to serve more customers - DIY, DIFM, and Pro - more effectively and differentiate ourselves by establishing market leadership for home improvement project solutions. Second, we are further adapting to an evolving customer, developing capabilities to anticipate and support their needs. We are empowering customers across the most relevant moments of their project journey, and we are advancing our customer service experience capabilities through our omni-channel assets. Finally, we are committed to generating long-term profitable growth and substantial returns for shareholders. By enhancing our operating discipline and focus, we are making productivity a core strength for Lowe’s. This commitment will drive focus and prioritization, allowing for investment in future capabilities to grow the business, maintain our leadership position, and drive value for shareholders.

Table of Contents

OPERATIONS

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

			Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year[1]	Percentage Increase / (Decrease) in Dollar Amounts from Prior Year[1]
	2016	2015	2016 vs. 2015	2016 vs. 2015
Net sales	100.00%	100.00%	N/A	10.1 %
Gross margin	34.55	34.82	(27)	9.2
Expenses:				
Selling, general and administrative	23.27	23.88	(61)	7.2
Depreciation and amortization	2.29	2.53	(24)	(0.3)
Operating income	8.99	8.41	58	17.6
Interest - net	0.99	0.93	6	16.9
Pre-tax earnings	8.00	7.48	52	17.7
Income tax provision	3.24	3.17	7	12.6
Net earnings	4.76%	4.31%	45	21.5 %

			Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year	Percentage Increase / (Decrease) in Dollar Amounts from Prior Year
	2015	2014	2015 vs. 2014	2015 vs. 2014
Net sales	100.00%	100.00%	N/A	5.1 %
Gross margin	34.82	34.79	3	5.2
Expenses:				
Selling, general and administrative	23.88	23.60	28	6.3
Depreciation and amortization	2.53	2.66	(13)	—
Operating income	8.41	8.53	(12)	3.7
Interest - net	0.93	0.92	1	7.0
Pre-tax earnings	7.48	7.61	(13)	3.3
Income tax provision	3.17	2.81	36	18.6
Net earnings	4.31%	4.80%	(49)	(5.6)%

Table of Contents

Other Metrics	2016	2015	2014
Comparable sales increase [2]	4.2 %	4.8 %	4.3 %
Total customer transactions (in millions) [1]	945	878	857
Average ticket [3]	$68.82	$67.26	$65.61
At end of year:			
Number of stores [4]	2,129	1,857	1,840
Sales floor square feet (in millions)	213	202	201
Average store size selling square feet (in thousands) [5]	100	109	109
Return on average assets [6]	8.9 %	7.8 %	8.2 %
Return on average shareholders' equity[7]	44.4 %	28.8 %	24.4 %
Return on invested capital [8]	15.8 %	14.1 %	13.9 %

[1] The fiscal year ended February 3, 2017 had 53 weeks. The fiscal years ended January 29, 2016 and January 30, 2015 had 52 weeks.

[2] A comparable location is defined as a location that has been open longer than 13 months. A location that is identified for relocation is no longer considered comparable one month prior to its relocation. The relocated location must then remain open longer than 13 months to be considered comparable. A location we have decided to close is no longer considered comparable as of the beginning of the month in which we announce its closing. Acquired locations are included in the comparable sales calculation beginning in the first full month following the first anniversary of the date of the acquisition. Comparable sales include online sales, which did not have a meaningful impact for the periods presented. The comparable store sales calculation for 2016 included in the preceding table was calculated using sales for a comparable 53-week period.

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

[4] The number of stores as of February 3, 2017 includes 245 stores acquired in the acquisition of RONA.

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

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

[7] Return on average shareholders' equity is defined as net earnings divided by average shareholders' equity for the last five quarters.

[8] Return on invested capital is a non-GAAP financial measure. See below for additional information and a reconciliation to the most comparable GAAP measure.

Non-GAAP Financial Measures

Return on Invested Capital

Return on Invested Capital (ROIC) is 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.

We define ROIC as trailing four quarters' net operating profit after tax divided by the average of ending debt and equity for the last five quarters. Although ROIC is a common financial metric, numerous methods exist for calculating ROIC. Accordingly, the method used by our management to calculate ROIC may differ from the methods other companies use to calculate their ROIC. We encourage you to understand the methods used by another company to calculate its ROIC before comparing its ROIC to ours.

We consider return on average debt and equity to be the financial measure computed in accordance with generally accepted accounting principles that is the most directly comparable GAAP financial measure to ROIC. The difference between these two measures is that ROIC adjusts net earnings to exclude tax adjusted interest expense.

Table of Contents

The calculation of ROIC, together with a reconciliation to the calculation of return on average debt and equity, the most comparable GAAP financial measure, is as follows:

(In millions, except percentage data)	2016	2015	2014
Calculation of Return on Invested Capital			
Numerator			
Net earnings	$3,093	$2,546	$2,698
Plus:			
Interest expense - net	645	552	516
Provision for income taxes	2,108	1,873	1,578
Earnings before interest and taxes	5,846	4,971	4,792
Less:			
Income tax adjustment [1]	2,370	2,058	1,769
Net operating profit after tax	$3,476	$2,913	$3,024
Effective tax rate	40.5 %	42.4 %	36.9 %
Denominator			
Average debt and equity [2]	$21,958	$20,693	$21,744
Return on invested capital	15.8 %	14.1 %	13.9 %
Calculation of Return on Average Debt and Equity			
Numerator			
Net earnings	$3,093	$2,546	$2,698
Denominator			
Average debt and equity [2]	$21,958	$20,693	$21,744
Return on average debt and equity	14.1 %	12.3 %	12.4 %

[1] Income tax adjustment is defined as earnings before interest and taxes multiplied by the effective tax rate.

[2] Average debt and equity is defined as average debt, including current maturities and short-term borrowings, plus total equity for the last five quarters.

Adjusted Diluted Earnings Per Share

To provide additional transparency, the Company has presented non-GAAP financial measures of adjusted diluted earnings per share to exclude the impact of certain discrete items not contemplated in Lowe’s 2016 and 2015 business outlooks. 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 should not be considered an alternative to, or more meaningful indicator of, the Company’s diluted earnings per common share as prepared in accordance with GAAP. The Company’s methods of determining this non-GAAP financial measure may differ from the method used by other companies for this or similar non-GAAP financial measures. Accordingly, these non-GAAP measures may not be comparable to the measures used by other companies.

Table of Contents

	2016			2015		
	Pre-Tax Earnings	Tax	Net Earnings	Pre-Tax Earnings	Tax	Net Earnings
Diluted earnings per share, as reported			$ 3.47			$ 2.73
Non-GAAP Adjustments - per share impacts						
Severance-related costs [1]	0.09	(0.03)	0.06	—	—	—
IRC Section 987 charge [2]	—	0.04	0.04	—	—	—
Premium paid to acquire noncontrolling interest [3]	—	—	0.02	—	—	—
Net gain on foreign currency hedge [4]	(0.09)	0.04	(0.05)	—	—	—
Australian joint venture impairment [5]	0.33	—	0.33	0.56	—	0.56
Project write-offs [6]	0.11	(0.04)	0.07	—	—	—
Orchard Supply Hardware goodwill and long-lived asset impairment [7]	0.08	(0.03)	0.05	—	—	—
Adjusted diluted earnings per share			$ 3.99			$ 3.29

1 Represents the costs associated with the Company's organizational changes in the stores, distribution centers, and corporate offices.

2 Represents tax charge primarily related to the passage of Internal Revenue Code Section 987 regulations in 2016.

3 Represents the premium paid to RONA's preferred shareholders. Under the two-class method, the premium paid was deducted from net earnings to compute net earnings allocable to common shareholders.

4 Represents the net settlement of a foreign currency hedge entered into in advance of the Company's acquisition of RONA during 2016.

5 Represents impairment charges related to the Company's Australian joint venture with Woolworths.

6 Represents charges recognized in 2016 for projects canceled as a part of the Company's ongoing review of strategic initiatives.

7 Represents impairment charges associated with the Company's Orchard Supply Hardware operations as part of a strategic reassessment of this business during 2016.

Fiscal 2016 Compared to Fiscal 2015

For the purpose of the following discussion, comparable store sales, comparable store average ticket and comparable store customer transactions are based upon comparable 53-week periods.

Net sales – Net sales increased 10.1% to $65.0 billion in 2016. The increase in total sales was driven by an increase in comparable sales, the addition of RONA, the 53rd week, and new stores. The addition of RONA and the 53rd week contributed 3.8% and 1.6%, respectively, to the sales growth for 2016. The comparable sales increase of 4.2% in 2016 was driven by a 2.5% increase in comparable average ticket and a 1.6% increase in comparable customer transactions. Comparable sales during each quarter of the fiscal year, as reported, were 7.3% in the first quarter, 2.0% in the second quarter, 2.7% in the third quarter, and 5.1% in the fourth quarter.

All of our product categories experienced comparable sales increases for the year. During 2016, we experienced comparable sales increases above the company average in Lumber & Building Materials, Appliances, Tools & Hardware, and Lawn & Garden. Performance in Lumber & Building Materials and Tools & Hardware was driven by strong demand from the Pro customer. Tools & Hardware also benefited from customers' positive response to our continued enhancements in product assortment and brand relevance. Strong brand and service advantages in Appliances, as well as our continued investment in customer experience both in-store and online, drove solid comparable sales during the year. An extended outdoor selling season as a result of favorable weather conditions, positively impacted sales within Lawn & Garden. Geographically, all of our 14 U.S. regions experienced increases in comparable store sales, with the strongest results in the South and Northwest.

During the fourth quarter of 2016, we experienced comparable sales increases in 12 of 13 product categories, with comparable sales increases above the company average in Appliances, Lawn & Garden, Kitchens, Lumber & Building Materials, and Rough Plumbing & Electrical. We experienced low single-digit negative comparable sales in Outdoor Power Equipment. Strong brand and service advantages in Appliances as well as our successful Holiday events drove solid comparable sales during the quarter. Performance in Kitchens was driven by our strategy to focus on the entire Kitchen project, investment in project specialists, and targeted promotions. We experienced strength in several outdoor project categories, including Lawn & Garden, Lumber & Building Materials, and Rough Plumbing & Electrical. Warmer weather, particularly in the South and West, drove strong demand for outdoor projects in Lawn & Garden. Lumber & Building Materials benefited from continued recovery efforts from Hurricane Matthew and Louisiana flooding, as well as strong performance with the Pro customer. Performance in Outdoor Power Equipment was primarily driven by strong performance of winter-weather related products,

such as snow throwers and generators, in the prior year due to a significant winter storm in the northeast during the fourth quarter.

Gross margin – Gross margin of 34.55% for 2016 represented a 27 basis point decrease from 2015. The change was primarily driven by 23 basis points decrease due to purchase price adjustments to RONA's opening inventory balance, and 11 basis points decrease due to targeted promotional activity, partially offset by 9 basis points increase due to cost reductions associated with Value Improvement efforts.

During the fourth quarter of 2016, gross margin of 34.41% decreased 25 basis points as a percentage of sales. Gross margin was negatively impacted 25 basis points by the RONA business, primarily driven by purchase price adjustments to their opening inventory balance and mix of business.

SG&A – SG&A expense for 2016 leveraged 61 basis points as a percentage of sales compared to 2015. This was primarily driven by 45 basis points of net leverage associated with impairment charges recorded during 2016 versus 2015 relating to our Australian joint venture with Woolworths. We experienced 15 basis points of leverage associated with incentive compensation, 14 basis points in employee insurance costs, and 12 basis points related to the settlement of the foreign currency option contract entered into in anticipation of the RONA acquisition. This was partially offset by 15 basis points of deleverage associated with the write-off of cancelled technology-enabled projects as part of an ongoing review of our strategic initiatives and 12 basis points associated with severance and related costs for organizational changes in the stores, distribution centers, and corporate offices.

During the fourth quarter of 2016, SG&A expense leveraged 445 basis points as a percentage of sales due primarily to 403 basis points of leverage associated with a non-cash impairment charge resulting from our decision to exit our Australian joint venture recorded in the fourth quarter of the prior year. We experienced 59 basis points of leverage in benefits primarily related to incentive compensation due to lower attainment levels compared to the same quarter of the prior year. These were partially offset by 53 basis points of deleverage associated with separation events for organizational changes in the stores, distribution centers, and corporate offices. Store environment, operating salaries, and certain other costs also leveraged as a result of sales growth.

Depreciation and amortization – Depreciation and amortization expense leveraged 24 basis points for 2016 compared to 2015 primarily due to the increase in sales from the 53rd week, partially offset by incremental expense due to the acquisition of RONA. Property, less accumulated depreciation, increased to $19.9 billion at February 3, 2017, compared to $19.6 billion at January 29, 2016. As of February 3, 2017 and January 29, 2016, we owned 79% and 86% of our stores, respectively, which included stores on leased land.

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

(In millions)	2016	2015
Interest expense, net of amount capitalized	$647	$548
Amortization of original issue discount and loan costs	10	8
Interest income	(12)	(4)
Interest - net	$645	$552

Net interest expense increased due primarily to an increase in total debt compared to the prior year.

Income tax provision - Our effective income tax rate was 40.5% in 2016 compared to 42.4% in 2015. During 2016, the Company was impacted by the passage of the U.S. Internal Revenue Service Internal Revenue Code Section 987, which negatively impacted the income tax rate due to the adjustment of deferred tax assets associated with cumulative currency translation adjustments related to certain of the Company's international operations. In addition, the Company recorded a deferred tax asset related to the investment in the Australian joint venture with Woolworths associated with

the non-cash impairment charges that occurred during both 2016 and 2015. The deferred tax asset associated with these losses was offset with the establishment of a full valuation allowance due to the fact the benefit of these losses can only be realized to the extent the Company has available capital gains for offset, and no present or future capital gains have been identified through which this deferred tax asset can be realized.

Our effective income tax rates were 40.3% and 96.1% for the three months ended February 3, 2017 and January 29, 2016, respectively, due to the same factors that impacted the income tax provision in the year.

Table of Contents

Fiscal 2015 Compared to Fiscal 2014

Net sales – Net sales increased 5.1% to $59.1 billion in 2015. The increase in total sales was driven primarily by the comparable sales increase of 4.8% and new stores. The comparable sales increase of 4.8% in 2015 was driven by a 2.5% increase in comparable average ticket and a 2.2% increase in comparable customer transactions. Comparable sales during each quarter of the fiscal year, as reported, were 5.2% in the first quarter, 4.3% in the second quarter, 4.6% in the third quarter, and 5.2% in the fourth quarter.

All of our product categories experienced comparable sales increases for the year. During 2015, comparable sales were above the company average in the following product categories: Appliances, Outdoor Power Equipment, and Seasonal Living. Appliances experienced the strongest growth with a double digit increase in comparable sales as we further strengthened our brand offerings and breadth of assortment and continued to provide service advantages with next-day delivery and haul away. Within Outdoor Power Equipment, we drove strong performance in walk behind and riding mowers as well as pressure washers. The Outdoor Living Experience introduced last year drove comparable sales in our Seasonal Living category, where we continued to see strong sales in patio furniture, replacement cushions, and outdoor accessories. In addition, Tools & Hardware performed at approximately the overall company average driven by strong demand and continued improvement in both product assortment and brand relevance. Geographically, all of our 14 U.S. regions experienced increases in comparable store sales, as sales performance was well balanced across the country.

During the fourth quarter of 2015, we recorded comparable sales increases above the company average in Lumber & Building Materials, Appliances, Lawn & Garden, and Paint. We saw particular strength in outdoor project categories, led by Lumber & Building Materials and Lawn & Garden, as customers took advantage of mild weather to complete exterior projects such as roofs, fences, decks, and lawn care. Our landscape lighting experience also drove strong performance by providing inspiration and easy selection and installation for customers, while offering new product technologies such as LED. We achieved strong comparable sales increases in Appliances during the quarter through strengthened brand offerings and service advantages. Paint benefited from increased project activity, as well as growing awareness of our three-brand offering, providing customers with a full suite of top brands they can trust for their next paint project.

Gross margin – Gross margin of 34.82% for 2015 represented a three basis point increase from 2014 and was primarily driven by cost reductions associated with Value Improvement efforts and product cost deflation, partially offset by negative impacts from targeted promotional activity and mix of products sold.

During the fourth quarter of 2015, gross margin of 34.66% was flat as a percentage of sales due to the same factors that impacted gross margin in the year.

SG&A – SG&A expense for 2015 deleveraged 28 basis points as a percentage of sales compared to 2014. This was primarily driven by 90 basis points of deleverage associated with an impairment charge recorded during the fourth quarter of 2015 related to the valuation of our one-third interest in the Australian joint venture with Woolworths Limited. This was partially offset by 16 basis points of leverage associated with operating salaries as we optimized payroll hours against customer traffic and 16 basis points of leverage in advertising expense due to more efficient and effective media mix compared to the prior year. We experienced eight basis points of leverage in employee insurance costs due to increased sales in the current year partially offset by additional costs associated with the Affordable Care Act. We also experienced eight basis points of leverage in utilities due to stronger sales as well as a decrease in rates and consumption. In addition, we experienced seven basis points of leverage in building and site repair due to a decrease in the number of repairs during the year and seven basis points of leverage in external labor due to completed projects and increased focus on use of internal resources across information technology projects.

During the fourth quarter of 2015, SG&A expense deleveraged 331 basis points as a percentage of sales due primarily to 401 basis points of deleverage associated with the Australian joint venture impairment charge partially offset by leverage in operating salaries, advertising expense, utilities, employee insurance, and certain other fixed costs. We experienced 25 basis points of leverage in operating salaries associated with optimization of store payroll hours and 20 basis points in advertising expense due to more efficient and effective media mix. We also experienced 12 basis points of leverage in utilities primarily the result of warmer weather and 12 basis points in employee insurance costs due to a reduction in the number and severity of claims. Certain other fixed costs also leveraged as a result of sales growth.

Depreciation and amortization – Depreciation and amortization expense leveraged 13 basis points for 2015 compared to 2014 primarily due to the increase in sales. Property, less accumulated depreciation, decreased to $19.6 billion at January 29, 2016 compared to $20.0 billion at January 30, 2015. At January 29, 2016 and January 30, 2015, we owned 86% of our stores, which included stores on leased land.

Table of Contents

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

(In millions)	2015	2014
Interest expense, net of amount capitalized	$548	$515
Amortization of original issue discount and loan costs	8	7
Interest income	(4)	(6)
Interest - net	$552	$516

Net interest expense increased primarily as a result of the issuance of $1.75 billion and $1.25 billion of unsecured notes in September 2015 and 2014, respectively. This was partially offset by the repayment of $500 million unsecured notes on October 15, 2015.

Income tax provision – Our effective income tax rate was 42.4% in 2015 compared to 36.9% in 2014. During 2015, the Company recorded a deferred tax asset related to losses associated with the joint venture investment in Australia with Woolworths Limited. The deferred tax asset associated with these losses was offset with the establishment of a full valuation allowance due to the fact the benefit of these losses can only be realized to the extent the Company has available capital gains for offset, and no present or future capital gains have been identified through which this deferred tax asset can be realized. The effective tax rate in 2014 benefited from the favorable settlement of certain federal tax matters.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following table summarizes our cash flow activities for each of the three most recent fiscal years ended February 3, 2017:

(In millions)	2016	2015	2014
Net cash provided by (used in):			
Operating activities	5,617	4,784	4,929
Investing activities	(3,361)	(1,343)	(1,088)
Financing activities	(2,092)	(3,493)	(3,761)

Cash flows from operating activities continued to provide the primary source of our liquidity. The increase in net cash provided by operating activities for 2016 versus 2015 was primarily driven by an increase in net earnings, adjusted for non-cash expenses and improved working capital management. The decrease in net cash provided by operating activities for 2015 versus 2014 was primarily driven by changes in working capital.

The increase in net cash used in investing activities for 2016 versus 2015 was primarily driven by the acquisition of RONA. The increase in net cash used in investing activities for 2015 versus 2014 was primarily driven by increased capital expenditures and purchases of investments, net of sales and maturities, partially offset by decreased contributions to equity method investments.

The decrease in net cash used in financing activities for 2016 versus 2015 was driven primarily by an increase in net proceeds from the issuance of long-term debt. The Company received proceeds of $3.3 billion from the issuance of unsecured notes in 2016 compared to $1.7 billion in 2015. The decrease in net cash used in financing activities is also attributable to a decrease in share repurchases, and is partially offset by an increase in repayments of long-term debt. The decrease in net cash used in financing activities for 2015 versus 2014 was driven primarily by increased proceeds from the issuance of long-term debt in 2015 and net repayments of short-term borrowings in 2014 versus net borrowings in 2015. This was partially offset by increased repayments of long-term debt and increased cash dividend payments in 2015.

Sources of Liquidity

Liquidity is provided primarily by our cash flows from operations, short-term borrowing facilities, and long-term debt.

In November 2016, the Company entered into an amended and restated credit agreement (the Amended Facility) with a syndicate of banks to modify the Company's credit agreement dated August 29, 2014 (the 2014 Credit Facility), which provided for borrowings up to $1.75 billion through August 2019. The Amended Facility extends the maturity date to

Table of Contents

November 2021 and continues to provide for borrowings up to $1.75 billion. Subject to obtaining commitments from the lenders and satisfying other conditions specified in the Amended Facility, the Company may increase the aggregate availability by an additional $500 million. The Amended Facility supports our commercial paper program and has a $500 million letter of credit sublimit. Letters of credit issued pursuant to the facility reduce the amount available for borrowing under its terms. Borrowings made are unsecured and priced at fixed rates based upon market conditions at the time of funding in accordance with the terms of the facility. The Amended Facility contains customary representations, warranties, and covenants for a transaction of this type. We were in compliance with those covenants at February 3, 2017. As of February 3, 2017, there were $510 million of outstanding borrowings under the commercial paper program and no outstanding borrowings or letters of credit under the credit facility.

We expect to continue to have access to the capital markets on both short-term and long-term bases when needed for liquidity purposes by issuing commercial paper or new long-term debt. The availability and the borrowing costs of these funds could be adversely affected, however, by a downgrade of our debt ratings or a deterioration of certain financial ratios. The table below reflects our debt ratings by Standard & Poor’s (S&P) and Moody’s as of April 3, 2017, which we are disclosing to enhance understanding of our sources of liquidity and the effect of our ratings on our cost of funds. Although we currently do not expect a downgrade in our debt ratings, our commercial paper and senior debt ratings may be subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating.

Debt Ratings	S&P	Moody’s
Commercial Paper	A-2	P-2
Senior Debt	A-	A3
Outlook	Stable	Stable

We believe that net cash provided by operating and financing activities will be adequate not only for our operating requirements, but also for investments in our existing stores and distribution facilities, investments in information technology, expansion plans, acquisitions, if any, and to return cash to shareholders through both dividends and share repurchases over the next 12 months. 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.

Cash Requirements

Capital expenditures

Our fiscal 2017 capital forecast is approximately $1.4 billion. Investments in our existing stores, including investments in remerchandising, store equipment, and technology, are expected to account for approximately 40% of net cash outflow. Our expansion plans are expected to account for approximately 35% of planned net cash outflow. Approximately 20% of planned net cash outflow is for corporate programs, including investments to enhance the customer experience, as well as enhancements to the corporate infrastructure. Other planned capital expenditures, accounting for approximately 5% of planned net cash outflow, are for investments in our existing distribution network.

Debt and capital

Unsecured debt of $500 million and $250 million is scheduled to mature in April 2017 and September 2017, respectively. See Note 8 to the consolidated financial statements included herein for additional information regarding long-term debt, including fiscal year 2016 financing activities.

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. Shares purchased under the share repurchase program are retired and returned to authorized and unissued status. As of February 3, 2017, we had $5.1 billion share repurchases remaining available under our program with no expiration date. In fiscal 2017, we expect to repurchase shares totaling $3.5 billion through purchases made from time to time either in the open market or through private off market transactions in accordance with SEC regulations. See Note 9 to the consolidated financial statements included herein for additional information regarding share repurchases.

Table of Contents

Dividends declared during fiscal 2016 totaled $1.2 billion. Our dividend payment dates are established such that dividends are paid in the quarter immediately following the quarter in which they are declared. The dividend declared in the fourth quarter of 2016 was paid in fiscal 2017 and totaled $304 million.

Our ratio of debt to equity plus debt was 70.8% and 62.3% as of February 3, 2017, and January 29, 2016, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

Other than in connection with executing operating leases, we do not have any off-balance sheet financing that has, or is reasonably likely to have, a current or future material effect on our financial condition, cash flows, results of operations, liquidity, capital expenditures or capital resources.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes our significant contractual obligations at February 3, 2017:

	Payments Due by Period				
Contractual Obligations (in millions)	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt (principal amounts, excluding discount and debt issuance costs)	$14,466	$751	$1,301	$1,526	$10,888
Long-term debt (interest payments)	9,533	577	1,105	1,037	6,814
Capitalized lease obligations [1, 2]	1,454	87	260	165	942
Operating leases [1]	5,853	617	1,140	974	3,122
Purchase obligations [3]	1,409	876	393	139	1
Total contractual obligations	$32,715	$2,908	$4,199	$3,841	$21,767

	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]	$67	$60	$7	$—	$—

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

2 Amounts include imputed interest and residual values.

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

from these estimates.

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

29

Table of Contents

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 2016, our reserve increased approximately $14 million to $59 million as of February 3, 2017.

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 2016, the inventory shrinkage reserve increased approximately $18 million to $189 million as of February 3, 2017.

In addition, we receive funds from vendors in the normal course of business, principally as a result of purchase volumes, sales, early payments or promotions of vendors' products. Generally, these vendor funds do not represent the reimbursement of specific, incremental and identifiable costs that we incurred to sell the vendor's product. Therefore, we treat these funds as a reduction in the cost of inventory as the amounts are accrued, and recognize these funds as a reduction of cost of sales when the inventory is sold. Funds that are determined to be reimbursements of specific, incremental and identifiable costs incurred to sell vendors' products are recorded as an offset to the related expense.

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

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

Effect if actual results differ from assumptions
We have not made any material changes in the methodology used to establish our inventory valuation or the related reserves for obsolete inventory or inventory shrinkage during the past three fiscal years. We believe that we have sufficient current and historical knowledge to record reasonable estimates for both of these inventory reserves. However, it is possible that actual results could differ from recorded reserves. A 10% change in either the amount of products considered obsolete or the weighted average estimated loss rate used in the calculation of our obsolete inventory reserve would have affected net earnings by approximately $3 million for 2016. A 10% change in the estimated shrinkage rate included in the calculation of our inventory shrinkage reserve would have affected net earnings by approximately $12 million for 2016.

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.

Impairment of Investments

Description

We use the equity method to account for investments in companies if the investment provides the ability to exercise significant influence, but not control, over operating and financial policies of the investee. Our proportionate share of the net income or loss of these companies is included in consolidated net earnings. We use the cost method to account for investments in companies for which we do not exercise significant influence. Each of the Company's equity method and cost method investments are subject to a review for impairment if, and when, circumstances indicate that the fair value of our investment could be less than the carrying value. Evidence considered in this evaluation includes, but would not necessarily be limited to, the financial condition and near-term prospects of the investee, recent operating trends and forecasted performance of the investee, market conditions in the geographic area or industry in which the investee operates, and the Company's strategic plans for holding the investment in relation to the period of time expected for an anticipated recovery of its carrying value. If

the results of our review indicate an other than temporary decline in the carrying value of our investment, the Company would write down the investment to its estimated fair value.

Judgments and uncertainties involved in the estimate
Our impairment evaluations for equity method and cost method investments require us to apply judgment in determining whether a decrease in value that is other than temporary has occurred. If we need to assess the recoverability of our investments, we will make assumptions regarding estimated future cash flows of those investments. These calculations require us to apply judgments, including assumptions of future performance, based on business plans and forecasts, recent economic and business trends, and competitive conditions.

Effect if actual results differ from assumptions
We own a one-third share in Hydrox Holdings Pty Ltd., a joint venture with Woolworths Limited (Woolworths), which operates Masters Home Improvement stores and Home Timber and Hardware Group's retail stores and wholesale distribution in Australia. As a result of our decision to exit the investment in 2015, Woolworths is required to purchase Lowe's one-third share of the joint venture at fair value as of January 18, 2016, the date of our notification of our intention to exit. The process for the two parties agreeing on fair value is prescribed in the Joint Venture Agreement.

During the third quarter of fiscal year 2016, Woolworths claimed a unilateral termination of the joint venture agreement, and executed other agreements to initiate the wind down of Hydrox without the Company's approval as required under the joint venture agreement. Due to this, Lowe's has concluded that under applicable accounting standards, the investment should be accounted for as a cost method investment going forward. As a result of this determination, accumulated foreign currency translation adjustments of $208 million were reclassified from accumulated other comprehensive loss into the carrying value of the cost method investment. In addition, the unilateral actions of Woolworths to begin the liquidation of Hydrox, represented a triggering event requiring the Company to evaluate the cost method investment for impairment. Management determined that the requirements for determining impairment were met, and leveraged wind down cash flow projections in determining the estimated fair value of the entity. The value was determined using an income approach based upon the expected future cash flows generated from the settlement of assets and liabilities inclusive of inventory, property, payables, lease liabilities and employee entitlements. As a result, the Company recorded a $290 million non-cash impairment charge during the third quarter of fiscal 2016 to reflect its estimated portion of the overall joint venture fair value in wind down. The assumptions that most significantly affect the fair value determination include the projected future cash anticipated in the settlement of assets and liabilities by Woolworths. Further changes in this estimate are possible as the parties proceed through the final stages of the valuation process as defined in the Joint Venture Agreement. The carrying value of the investment as of February 3, 2017 is $103 million. A 10% change in our current estimate of fair value of the joint venture would have affected net earnings by approximately $10 million for 2016.

Long-Lived Asset Impairment

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

We evaluate locations for triggering events relating to long-lived asset impairment on a quarterly basis to determine when a location's asset carrying values may not be recoverable. For operating locations, our primary indicator that asset carrying values may not be recoverable is consistently negative cash flow for a 12-month period for those locations that have been open in the same location for a sufficient period of time to allow for meaningful analysis of

ongoing operating results. Management also monitors other factors when evaluating operating locations for impairment, including individual locations' execution of their operating plans and local market conditions, including incursion, which is the opening of either other Lowe's locations or those of a direct competitor within the same market. We also consider there to be a triggering event when there is a current expectation that it is more likely than not that a given location will be closed significantly before the end of its previously estimated useful life.

A potential impairment has occurred if projected future undiscounted cash flows expected to result from the use and eventual disposition of the location's assets are less than the carrying amount of the assets. When determining the stream of projected future cash flows associated with an individual operating location, management makes assumptions, incorporating local market conditions, about key store variables including sales growth rates, gross margin and controllable expenses, such as store payroll and occupancy expense, as well as asset residual values or lease rates. An impairment loss is recognized when the carrying amount of the operating location is not recoverable and exceeds its fair value.

Table of Contents

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

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

Effect if actual results differ from assumptions
During 2016, 14 operating locations experienced a triggering event and were evaluated for recoverability. Eleven of the 14 operating locations were determined to be impaired due to a decline in recent cash flow trends and an unfavorable sales outlook, resulting in an impairment loss of $34 million during 2016, compared to impairment losses of $8 million related to two operating locations impaired during 2015. Three of the 14 operating locations that experienced a triggering event during 2016 were determined to be recoverable and, therefore, were not impaired. A 10% reduction in projected sales used to estimate future cash flows for these operating locations would not have had a significant impact to impairment losses recognized during 2016.

We have not made any material changes in the methodology used to estimate the future cash flows of operating locations or locations identified for closure during the past three fiscal years. If the actual results are not consistent with the assumptions and judgments we have made in determining whether it is more likely than not that a location will be closed significantly before the end of its useful life or in estimating future cash flows and determining asset fair values, our actual impairment losses could vary positively or negatively from our estimated impairment losses.

Goodwill

Description
Goodwill is not amortized but is evaluated for impairment at least annually on the first day of the fourth quarter or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount may not be recoverable. We test for goodwill impairment at the reporting unit level, which is one level below the operating segment level. The evaluation begins with a qualitative assessment to determine whether a quantitative impairment test is necessary. If, after assessing qualitative factors, we determine it is more likely than not that the fair value of the reporting unit is less than the carrying amount, then the two-step goodwill impairment test is necessary.

The first step of the goodwill impairment test used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. Fair value represents the price a market participant would be willing to pay in a potential sale of the reporting unit and is based on discounted future cash flows. If the fair value exceeds carrying value, then no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, a second step is required to measure possible goodwill impairment loss. The second step includes hypothetically valuing the tangible and intangible assets and liabilities of the reporting unit as if the reporting unit had been acquired in a business combination. Then, the implied fair value of the reporting unit's goodwill is compared to

the carrying value of that goodwill. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of the goodwill, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying value.

Judgments and uncertainties involved in the estimate
The determination of the fair value of the reporting units requires us to make significant estimates and assumptions, including store growth rates, existing store sales growth rates, forecasting expenses and selecting appropriate discount rates.

Effect if actual results differ from assumptions
During the third quarter of fiscal year 2016, we determined our Orchard Supply Hardware (Orchard) reporting unit was impaired. We recorded impairment loss related to the Orchard reporting unit of $46 million, which represented the entire amount of goodwill allocated to this reporting unit.

The carrying value of goodwill as of February 3, 2017, was $1.1 billion. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to test for impairment losses on goodwill. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to an impairment charge that could be material.

Self-Insurance

Description
We are self-insured for certain losses relating to workers' compensation, automobile, general and product liability, extended protection plan, and certain medical and dental claims. Our self-insured retention or deductible, as applicable, is limited to $2 million per occurrence involving workers' compensation, $5 million per occurrence involving general or product liability, and $10 million per occurrence involving automobile. We do not have any insurance coverage for self-insured extended protection plan or medical and dental claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon our estimates of the discounted ultimate cost for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. During 2016, our self-insurance liability decreased approximately $52 million to $831 million as of February 3, 2017.

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 $51 million for 2016. A 100 basis point change in our discount rate would have affected net earnings by approximately $17 million for 2016.

Revenue Recognition

Description
See Note 1 to the consolidated financial statements for a discussion of our revenue recognition policies. The following accounting estimates relating to revenue recognition require management to make assumptions and apply judgment regarding the effects of future events that cannot be determined with certainty.

We sell separately-priced extended protection plan contracts under a Lowe's-branded program for which the Company is ultimately self-insured. The Company recognizes revenues from extended protection plan sales on a straight-line basis over the respective contract term. Extended protection plan contract terms primarily range from one to four years from the date of purchase or the end of the manufacturer's warranty, as applicable. The Company consistently groups and evaluates extended protection plan contracts based on the characteristics of the underlying products and the coverage provided in order to monitor for expected losses. A loss on the overall contract would be recognized if the expected costs of performing services under the contracts exceeded the amount of unamortized acquisition costs and related deferred revenue associated with the contracts. Deferred revenues associated with the extended protection plan contracts increased $34 million to $763 million as of February 3, 2017.

We defer revenue and cost of sales associated with settled transactions for which customers have not yet taken possession of merchandise or for which installation has not yet been completed. Revenue is deferred based on the actual amounts received. We use historical gross margin rates to estimate the adjustment to cost of sales for these

transactions. During 2016, deferred revenues associated with these transactions increased $136 million to $755 million as of February 3, 2017.

Judgments and uncertainties involved in the estimate
For extended protection plans, there is judgment inherent in our evaluation of expected losses as a result of our methodology for grouping and evaluating extended protection plan contracts and from the actuarial determination of the estimated cost of the contracts. There is also judgment inherent in our determination of the recognition pattern of costs of performing services under these contracts.

Table of Contents

For the deferral of revenue and cost of sales associated with transactions for which customers have not yet taken possession of merchandise or for which installation has not yet been completed, there is judgment inherent in our estimates of gross margin rates.

Effect if actual results differ from assumptions

We have not made any material changes in the methodology used to recognize revenue on our extended protection plan contracts during the past three fiscal years. We currently do not anticipate incurring any overall contract losses on our extended protection plan contracts. Although we believe that we have the ability to adequately monitor and estimate expected losses under the extended protection plan contracts, it is possible that actual results could differ from our estimates. In addition, if future evidence indicates that the costs of performing services under these contracts are incurred on other than a straight-line basis, the timing of revenue recognition under these contracts could change. A 10% change in the amount of revenue recognized in 2016 under these contracts would have affected net earnings by approximately $22 million.

We have not made any material changes in the methodology used to reverse net sales and cost of sales related to amounts received for which customers have not yet taken possession of merchandise or for which installation has not yet been completed. We believe we have sufficient current and historical knowledge to record reasonable estimates related to the impact to cost of sales for these transactions. However, if actual results are not consistent with our estimates or assumptions, we may incur additional income or expense. A 10% change in the estimate of the gross margin rates applied to these transactions would have affected net earnings by approximately $11 million in 2016.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

We speak throughout this Annual Report in forward-looking statements about our future, but particularly in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. The words “believe,” “expect,” “will,” “should,” “suggest”, and other similar expressions are intended to identify those forward-looking statements. While we believe our expectations are reasonable, they are not guarantees of future performance. Our actual results could differ substantially from our expectations.

For a detailed description of the risks and uncertainties that we are exposed to, you should read the “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 the “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 report.

Item 7A - Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk

Fluctuations in interest rates do not have a material impact on our financial condition and results of operations because our long-term debt is carried at amortized cost and consists primarily of fixed-rate instruments. Therefore, providing quantitative information about interest rate risk is not meaningful for our financial instruments.

Commodity Price Risk

We purchase certain commodity products that are subject to price volatility caused by factors beyond our control. We believe that the price volatility of these products is partially mitigated by our ability to adjust selling prices. The selling prices of these commodity products are influenced, in part, by the market price we pay, which is determined by industry supply and demand.

Foreign Currency Exchange Rate Risk

Historically, our exposure to foreign currency exchange rate fluctuations on the translation of our international operations into U.S. dollars has not been material to our financial condition and results of operations. We will be further exposed to this risk as we increase operations in Canada following the acquisition of RONA. To manage the foreign currency exchange rate risk on the consideration to be paid for the RONA acquisition, the Company entered into a foreign currency exchange option during

Table of Contents

the first quarter of fiscal 2016 to purchase 3.2 billion Canadian dollars at a strike price of 1.3933. In the second quarter of fiscal 2016, the option contract was settled. The net gain of $76 million was included in the accompanying consolidated statements of current and retained earnings.

Table of Contents

Item 8 - Financial Statements and Supplementary Data

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our Internal Control as of February 3, 2017. In evaluating our Internal Control, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on our management's assessment, we have concluded that, as of February 3, 2017, our Internal Control is effective.

Under guidelines established by the SEC, companies are permitted to exclude acquisitions from their first assessment of internal control over financial reporting following the date of acquisition. Management's assessment of the effectiveness of the Company's internal control over financial reporting excluded RONA inc. (RONA), a wholly owned subsidiary of Lowe's Companies Inc. that consisted of the net assets purchased from RONA in May 2016. RONA represented 8.9% and 3.4% of the Company's consolidated total assets and consolidated net sales, respectively, as of and for the year ended February 3, 2017. This acquisition is more fully discussed in Note 2 to our Consolidated Financial Statements for fiscal year 2016.

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 38.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Lowe's Companies, Inc. and subsidiaries (the "Company") as of February 3, 2017 and January 29, 2016, and the related consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows for each of the three fiscal years in the period ended February 3, 2017. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at February 3, 2017 and January 29, 2016, and the results of its operations and its cash flows for each of the three fiscal years in the period ended February 3, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of February 3, 2017, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 3, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina
April 3, 2017

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Lowe's Companies, Inc. and subsidiaries (the "Company") as of February 3, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at RONA Inc. ("RONA"), which was acquired on May 20, 2016 and whose financial statements constitute 8.9% and 3.4% of the Company's consolidated total assets and consolidated net sales, respectively, as of and for the fiscal year ended February 3, 2017. Accordingly, our audit did not include the internal control over financial reporting at RONA. 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 3, 2017, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the fiscal year ended February 3, 2017 of the Company and our report dated April 3, 2017 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina
April 3, 2017

Table of Contents

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

Fiscal years ended on	February 3, 2017	% Sales		January 29, 2016	% Sales		January 30, 2015	% Sales	
Net sales	$ 65,017	100.00	%	$ 59,074	100.00	%	$ 56,223	100.00	%
Cost of sales	42,553	65.45		38,504	65.18		36,665	65.21	
Gross margin	22,464	34.55		20,570	34.82		19,558	34.79	
Expenses:									
Selling, general and administrative	15,129	23.27		14,105	23.88		13,272	23.60	
Depreciation and amortization	1,489	2.29		1,494	2.53		1,494	2.66	
Operating income	5,846	8.99		4,971	8.41		4,792	8.53	
Interest - net	645	0.99		552	0.93		516	0.92	
Pre-tax earnings	5,201	8.00		4,419	7.48		4,276	7.61	
Income tax provision	2,108	3.24		1,873	3.17		1,578	2.81	
Net earnings	$ 3,093	4.76	%	$ 2,546	4.31	%	$ 2,698	4.80	%
Basic earnings per common share	$ 3.48			$ 2.73			$ 2.71		
Diluted earnings per common share	$ 3.47			$ 2.73			$ 2.71		
Cash dividends per share	$ 1.33			$ 1.07			$ 0.87		

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

Fiscal years ended on	February 3, 2017	% Sales		January 29, 2016		% Sales		January 30, 2015		% Sales	
Net earnings	$ 3,093	4.76	%	$ 2,546		4.31	%	$ 2,698		4.80	%
Foreign currency translation adjustments - net of tax	154	0.23		(291	)	(0.49	)	(86	)	(0.15	)
Other comprehensive income/(loss)	154	0.23		(291	)	(0.49	)	(86	)	(0.15	)
Comprehensive income	$ 3,247	4.99	%	$ 2,255		3.82	%	$ 2,612		4.65	%

See accompanying notes to consolidated financial statements.

39

Table of Contents

Lowe’s Companies, Inc.
Consolidated Balance Sheets
(In millions, except par value and percentage data)

		February 3, 2017	% Total		January 29, 2016	% Total	
Assets							
Current assets:							
Cash and cash equivalents		$ 558	1.6	%	$ 405	1.3	%
Short-term investments		100	0.3		307	1.0	
Merchandise inventory - net		10,458	30.4		9,458	30.3	
Other current assets		884	2.6		391	1.3	
Total current assets		12,000	34.9		10,561	33.9	
Property, less accumulated depreciation		19,949	58.0		19,577	62.6	
Long-term investments		366	1.1		222	0.7	
Deferred income taxes - net		222	0.6		241	0.8	
Goodwill		1,082	3.1		154	0.5	
Other assets		789	2.3		511	1.5	
Total assets		$ 34,408	100.0	%	$ 31,266	100.0	%
Liabilities and shareholders’ equity							
Current liabilities:							
Short-term borrowings		$ 510	1.5	%	$ 43	0.1	%
Current maturities of long-term debt		795	2.3		1,061	3.4	
Accounts payable		6,651	19.3		5,633	18.0	
Accrued compensation and employee benefits		790	2.3		820	2.6	
Deferred revenue		1,253	3.6		1,078	3.4	
Other current liabilities		1,975	5.7		1,857	6.1	
Total current liabilities		11,974	34.7		10,492	33.6	
Long-term debt, excluding current maturities		14,394	41.8		11,545	36.9	
Deferred revenue - extended protection plans		763	2.2		729	2.3	
Other liabilities		843	2.6		846	2.7	
Total liabilities		27,974	81.3		23,612	75.5	
Commitments and contingencies							
Shareholders’ equity:							
Preferred stock - $5 par value, none issued		—	—		—	—	
Common stock - $.50 par value;							
Shares issued and outstanding							
February 3, 2017	866						
January 29, 2016	910	433	1.3		455	1.5	
Capital in excess of par value		—	—		—	—	
Retained earnings		6,241	18.1		7,593	24.3	
Accumulated other comprehensive loss		(240)	(0.7)		(394)	(1.3)	
Total shareholders’ equity		6,434	18.7		7,654	24.5	
Total liabilities and shareholders’ equity		$ 34,408	100.0	%	$ 31,266	100.0	%

See accompanying notes to consolidated financial statements.

Table of Contents

Lowe’s Companies, Inc.
Consolidated Statements of Shareholders’ Equity
(In millions)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Lowe’s Companies, Inc. Shareholders’ Equity	Noncontrolling Interest	Total Equity
	Shares	Amount						
Balance January 31, 2014	1,030	$ 515	$ —	$ 11,355	$ (17)	$ 11,853	$ —	$ 11,853
Net earnings				2,698		2,698		2,698
Other comprehensive loss					(86)	(86)		(86)
Tax effect of non-qualified stock options exercised and restricted stock vested			41			41		41
Cash dividends declared, $0.87 per share				(858)		(858)		(858)
Share-based payment expense			111			111		111
Repurchase of common stock	(75)	(37)	(286)	(3,604)		(3,927)		(3,927)
Issuance of common stock under share-based payment plans	5	2	134			136		136
Balance January 30, 2015	960	$ 480	$ —	$ 9,591	$ (103)	$ 9,968	$ —	$ 9,968
Net earnings				2,546		2,546		2,546
Other comprehensive loss					(291)	(291)		(291)
Tax effect of non-qualified stock options exercised and restricted stock vested			61			61		61
Cash dividends declared, $1.07 per share				(991)		(991)		(991)
Share-based payment expense			112			112		112
Repurchase of common stock	(54)	(27)	(298)	(3,553)		(3,878)		(3,878)
Issuance of common stock under share-based payment plans	4	2	125			127		127
Balance January 29, 2016	910	$ 455	$ —	$ 7,593	$ (394)	$ 7,654	$ —	7,654
Net earnings				3,091		3,091	2	3,093
Other comprehensive income					154	154		154
Tax effect of non-qualified stock options exercised and restricted stock vested			57			57		57
Cash dividends declared, $1.33 per share				(1,169)				