

LOWES COMPANIES INC

Form 10-Q

December 02, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 30, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-7898

LOWE'S COMPANIES, INC.

(Exact name of registrant as specified in its charter)

NORTH CAROLINA

(State or other jurisdiction of incorporation or organization)

56-0578072

(I.R.S. Employer Identification No.)

1000 Lowe's Blvd., Mooresville, NC  
(Address of principal executive offices)

28117

(Zip Code)

Registrant's telephone number, including area code (704) 758-1000

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

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

Indicate by check mark 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

CLASS

OUTSTANDING AT 11/27/2015

Common Stock, \$.50 par value

915,104,607

LOWE'S COMPANIES, INC.  
- TABLE OF CONTENTS -  
PART I - Financial Information

Page No.

Item 1.	Financial Statements	
	<u>Consolidated Balance Sheets — October 30, 2015 (Unaudited), October 31, 2014 (Unaudited) and January 30, 2015</u>	<u>3</u>
	<u>Consolidated Statements of Current and Retained Earnings (Unaudited) — Three and nine months ended October 30, 2015 and October 31, 2014</u>	<u>4</u>
	<u>Consolidated Statements of Comprehensive Income (Unaudited) — Three and nine months ended October 30, 2015 and October 31, 2014</u>	<u>4</u>
	<u>Consolidated Statements of Cash Flows (Unaudited) — Nine months ended October 30, 2015 and October 31, 2014</u>	<u>5</u>
	<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>6</u>
	<u>Report of Independent Registered Public Accounting Firm</u>	<u>14</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>15</u>
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>22</u>
Item 4.	<u>Controls and Procedures</u>	<u>22</u>
PART II - Other Information		
Item 1A.	<u>Risk Factors</u>	<u>24</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>24</u>
Item 6.	<u>Exhibits</u>	<u>25</u>
	<u>Signature</u>	<u>26</u>

---

Table of Contents

## Part I - FINANCIAL INFORMATION

## Item 1. Financial Statements

Lowe's Companies, Inc.

Consolidated Balance Sheets

In Millions, Except Par Value Data

	(Unaudited) October 30, 2015	(Unaudited) October 31, 2014	January 30, 2015
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,227	\$ 1,562	\$ 466
Short-term investments	158	211	125
Merchandise inventory - net	10,434	9,762	8,911
Deferred income taxes - net	255	261	230
Other current assets	321	334	348
Total current assets	12,395	12,130	10,080
Property, less accumulated depreciation	19,655	20,180	20,034
Long-term investments	382	395	354
Other assets	1,223	1,327	1,359
Total assets	\$33,655	\$34,032	\$31,827
Liabilities and shareholders' equity			
Current liabilities:			
Current maturities of long-term debt	\$ 1,058	\$ 551	\$ 552
Accounts payable	7,338	6,459	5,124
Accrued compensation and employee benefits	685	676	773
Deferred revenue	1,084	1,029	979
Other current liabilities	1,997	2,089	1,920
Total current liabilities	12,162	10,804	9,348
Long-term debt, excluding current maturities	11,541	10,806	10,815
Deferred income taxes - net	—	92	97
Deferred revenue - extended protection plans	731	736	730
Other liabilities	843	864	869
Total liabilities	25,277	23,302	21,859
Shareholders' equity:			
Preferred stock - \$5 par value, none issued	—	—	—
Common stock - \$.50 par value;			
Shares issued and outstanding			
October 30, 2015	917		
October 31, 2014	974		
January 30, 2015	960	459	487
Capital in excess of par value	—	—	—
Retained earnings	8,298	10,271	9,591
Accumulated other comprehensive loss	(379)	) (28	) (103
Total shareholders' equity	8,378	10,730	9,968
Total liabilities and shareholders' equity	\$33,655	\$34,032	\$31,827

See accompanying notes to the consolidated financial statements (unaudited).



Table of Contents

Lowe's Companies, Inc.

Consolidated Statements of Current and Retained Earnings (Unaudited)

In Millions, Except Per Share and Percentage Data

	Three Months Ended				Nine Months Ended			
	October 30, 2015		October 31, 2014		October 30, 2015		October 31, 2014	
	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
Current Earnings								
Net sales	\$14,360	100.00	\$13,681	100.00	\$45,838	100.00	\$43,682	100.00
Cost of sales	9,370	65.25	8,963	65.51	29,856	65.13	28,471	65.18
Gross margin	4,990	34.75	4,718	34.49	15,982	34.87	15,211	34.82
Expenses:								
Selling, general and administrative	3,287	22.89	3,255	23.80	10,334	22.55	10,115	23.15
Depreciation	375	2.61	375	2.74	1,115	2.43	1,123	2.57
Interest - net	141	0.98	134	0.98	409	0.89	384	0.88
Total expenses	3,803	26.48	3,764	27.52	11,858	25.87	11,622	26.60
Pre-tax earnings	1,187	8.27	954	6.97	4,124	9.00	3,589	8.22
Income tax provision	451	3.14	369	2.69	1,589	3.47	1,341	3.07
Net earnings	\$736	5.13	\$585	4.28	\$2,535	5.53	\$2,248	5.15
Weighted average common shares outstanding - basic	918		978		933		996	
Basic earnings per common share	\$0.80		\$0.59		\$2.70		\$2.24	
Weighted average common shares outstanding - diluted	921		980		935		998	
Diluted earnings per common share	\$0.80		\$0.59		\$2.70		\$2.24	
Cash dividends per share	\$0.28		\$0.23		\$0.79		\$0.64	
Retained Earnings								
Balance at beginning of period	\$8,533		\$10,749		\$9,591		\$11,355	
Net earnings	736		585		2,535		2,248	
Cash dividends	(257 )		(225 )		(736 )		(636 )	
Share repurchases	(714 )		(838 )		(3,092 )		(2,696 )	
Balance at end of period	\$8,298		\$10,271		\$8,298		\$10,271	

See accompanying notes to the consolidated financial statements (unaudited).

Lowe's Companies, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

In Millions, Except Percentage Data

	Three Months Ended				Nine Months Ended			
	October 30, 2015		October 31, 2014		October 30, 2015		October 31, 2014	
	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
Net earnings	\$736	5.13	\$585	4.28	\$2,535	5.53	\$2,248	5.15
Foreign currency translation adjustments - net of tax	(69 )	(0.48 )	(23 )	(0.17 )	(275 )	(0.60 )	(11 )	(0.03 )
Other comprehensive loss	(69 )	(0.48 )	(23 )	(0.17 )	(275 )	(0.60 )	(11 )	(0.03 )

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

Comprehensive income	\$667	4.65	\$562	4.11	\$2,260	4.93	\$2,237	5.12
----------------------	-------	------	-------	------	---------	------	---------	------

See accompanying notes to the consolidated financial statements (unaudited).

4

---

Table of Contents

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

	Nine Months Ended	
	October 30, 2015	October 31, 2014
Cash flows from operating activities:		
Net earnings	\$2,535	\$2,248
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,192	1,199
Deferred income taxes	(140)	(201)
Loss on property and other assets - net	19	24
Loss on equity method investments	46	47
Share-based payment expense	84	84
Changes in operating assets and liabilities:		
Merchandise inventory - net	(1,536)	(641)
Other operating assets	38	105
Accounts payable	2,218	1,452
Other operating liabilities	90	367
Net cash provided by operating activities	4,546	4,684
Cash flows from investing activities:		
Purchases of investments	(650)	(600)
Proceeds from sale/maturity of investments	588	458
Capital expenditures	(844)	(587)
Contributions to equity method investments - net	(106)	(196)
Proceeds from sale of property and other long-term assets	51	44
Other - net	(25)	(6)
Net cash used in investing activities	(986)	(887)
Cash flows from financing activities:		
Net decrease in short-term borrowings	—	(386)
Net proceeds from issuance of long-term debt	1,718	1,239
Repayment of long-term debt	(541)	(36)
Proceeds from issuance of common stock under share-based payment plans	69	90
Cash dividend payments	(700)	(597)
Repurchase of common stock	(3,382)	(2,950)
Other - net	46	16
Net cash used in financing activities	(2,790)	(2,624)
Effect of exchange rate changes on cash	(9)	(2)
Net increase in cash and cash equivalents	761	1,171
Cash and cash equivalents, beginning of period	466	391
Cash and cash equivalents, end of period	\$1,227	\$1,562

See accompanying notes to the consolidated financial statements (unaudited).





Table of Contents

Lowe's Companies, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Basis of Presentation - The accompanying consolidated financial statements (unaudited) and notes to the consolidated financial statements (unaudited) are presented in accordance with the rules and regulations of the Securities and Exchange Commission and do not include all the disclosures normally required in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements (unaudited), in the opinion of management, contain all adjustments necessary to present fairly the financial position as of October 30, 2015, and October 31, 2014, and the results of operations and comprehensive income for the three and nine months ended October 30, 2015, and October 31, 2014, and cash flows for the nine months ended October 30, 2015, and October 31, 2014.

These interim consolidated financial statements (unaudited) should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Lowe's Companies, Inc. (the Company) Annual Report on Form 10-K for the fiscal year ended January 30, 2015 (the Annual Report). The financial results for the interim periods may not be indicative of the financial results for the entire fiscal year.

Note 2: Fair Value Measurements - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance for fair value measurements establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

Level 1 - inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities

Level 2 - inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly

Level 3 - inputs to the valuation techniques that are unobservable for the assets or liabilities

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

The following tables present the Company's financial assets measured at fair value on a recurring basis as of October 30, 2015, October 31, 2014, and January 30, 2015:

(In millions)	Measurement Level	Fair Value Measurements at		
		October 30, 2015	October 31, 2014	January 30, 2015
Available-for-sale securities:				
Certificates of deposit	Level 1	\$96	\$18	\$17
Money market funds	Level 1	50	156	81
Municipal floating rate obligations	Level 2	11	3	6
Municipal obligations	Level 2	1	34	21
Total short-term investments		\$158	\$211	\$125
Available-for-sale securities:				
Municipal floating rate obligations	Level 2	\$372	\$385	\$348
Certificates of deposit	Level 1	5	3	4
Municipal obligations	Level 2	5	7	2
Total long-term investments		\$382	\$395	\$354

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

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

Table of Contents

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

During the nine months ended October 30, 2015 and October 31, 2014, the Company's only significant assets or liabilities measured at fair value on a nonrecurring basis subsequent to their initial recognition were certain assets subject to long-lived asset impairment.

The Company reviews the carrying amounts of long-lived assets whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. With input from retail store operations, the Company's accounting and finance personnel that organizationally report to the chief financial officer, assess the performance of retail stores quarterly against historical patterns and projections of future profitability for evidence of possible impairment. An impairment loss is recognized when the carrying amount of the asset (disposal) group is not recoverable and exceeds its fair value. The Company estimated the fair values of assets subject to long-lived asset impairment based on the Company's own judgments about the assumptions that market participants would use in pricing the assets and on observable market data, when available. The Company classified these fair value measurements as Level 3.

In the determination of impairment for operating locations, the Company determined the fair values of individual operating locations using an income approach, which required discounting projected future cash flows. When determining the stream of projected future cash flows associated with an individual operating location, management made assumptions, incorporating local market conditions and inputs from retail store operations, about key variables including the following unobservable inputs: sales growth rates, gross margin, controllable expenses, such as payroll and occupancy expense, and asset residual values. In order to calculate the present value of those future cash flows, the Company discounted cash flow estimates at a rate commensurate with the risk that selected market participants would assign to the cash flows. In general, the selected market participants represented a group of other retailers with a location footprint similar in size to the Company's.

During the nine months ended October 30, 2015, two operating locations experienced a triggering event and were determined to be impaired due to a decline in cash flow trends and an unfavorable sales outlook, resulting in an impairment loss of \$8 million. The discounted cash flow model used to estimate the fair value of the impaired operating locations assumed average annual sales growth rates ranging from 3.9% to 4.3% over the remaining life of the locations and applied a discount rate of approximately 6.3%.

In the determination of impairment for excess properties held-for-use and held-for-sale, which consisted of retail outparcels and property associated with relocated or closed locations, the fair values were determined using a market approach based on estimated selling prices. The Company determined the estimated selling prices by obtaining information from property brokers or appraisers in the specific markets being evaluated or negotiated non-binding offers to purchase. The information obtained from property brokers or appraisers included comparable sales of similar assets and assumptions about demand in the market for these assets. Impairment charges for excess properties were insignificant for the nine months ended October 30, 2015.

The following table presents the Company's non-financial assets measured at estimated fair value on a nonrecurring basis and the resulting long-lived asset impairment losses included in earnings. Because assets subject to long-lived asset impairment were not measured at fair value on a recurring basis, certain fair value measurements presented in the table may reflect values at earlier measurement dates and may no longer represent the fair values at October 30, 2015 and October 31, 2014.

Table of Contents

## Fair Value Measurements - Nonrecurring Basis

(In millions)	Fair Value Measurements	Impairment Losses	
	October 30, 2015	Three Months Ended October 30, 2015	Nine Months Ended October 30, 2015
Assets-held-for-use:			
Operating locations	\$4	\$—	\$(8 )
Total	\$4	\$—	\$(8 )
(In millions)	Fair Value Measurements	Impairment Losses	
	October 31, 2014	Three Months Ended October 31, 2014	Nine Months Ended October 31, 2014
Assets-held-for-use:			
Operating locations	\$9	\$—	\$(26 )
Excess properties	11	(2 )	(2 )
Total	\$20	\$(2 )	\$(28 )

## Fair Value of Financial Instruments

The Company's financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and long-term debt and are reflected in the financial statements at cost. With the exception of long-term debt, cost approximates fair value for these items due to their short-term nature. The fair values of the Company's unsecured notes were estimated using quoted market prices. The fair values of the Company's mortgage notes were estimated using discounted cash flow analyses, based on the future cash outflows associated with these arrangements and discounted using the applicable incremental borrowing rate.

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

(In millions)	October 30, 2015		October 31, 2014		January 30, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Unsecured notes (Level 1)	\$12,082	\$13,245	\$10,859	\$12,147	\$10,860	\$12,739
Mortgage notes (Level 2)	7	8	16	17	16	17
Long-term debt (excluding capitalized lease obligations)	\$12,089	\$13,253	\$10,875	\$12,164	\$10,876	\$12,756

Note 3: Restricted Investment Balances - Short-term and long-term investments include restricted balances pledged as collateral primarily for the Company's extended protection plan program. Restricted balances included in short-term investments were \$54 million at October 30, 2015, \$180 million at October 31, 2014, and \$99 million at January 30, 2015.

Restricted balances included in long-term investments were \$262 million at October 30, 2015, \$272 million at October 31, 2014, and \$305 million at January 30, 2015.

Note 4: Property - Property is shown net of accumulated depreciation of \$16.2 billion at October 30, 2015, \$15.2 billion at October 31, 2014, and \$15.4 billion at January 30, 2015.



Table of Contents

Note 5: Extended Protection Plans - The Company sells separately-priced extended protection plan contracts under a Lowe's-branded program for which the Company is self-insured. The Company recognizes revenue from extended protection plan sales on a straight-line basis over the respective contract term. Extended protection plan contract terms primarily range from one to four years from the date of purchase or the end of the manufacturer's warranty, as applicable. Changes in deferred revenue for extended protection plan contracts are summarized as follows:

(In millions)	Three Months Ended		Nine Months Ended	
	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
Deferred revenue - extended protection plans, beginning of period	\$739	\$743	\$730	\$730
Additions to deferred revenue	81	75	263	240
Deferred revenue recognized	(89	) (82	) (262	) (234
Deferred revenue - extended protection plans, end of period	\$731	\$736	\$731	\$736

Incremental direct acquisition costs associated with the sale of extended protection plans are also deferred and recognized as expense on a straight-line basis over the respective contract term. Deferred costs associated with extended protection plan contracts were \$22 million at October 30, 2015, \$35 million at October 31, 2014, and \$30 million at January 30, 2015. The Company's extended protection plan deferred costs are included in other assets (noncurrent) on the consolidated balance sheets. All other costs, such as costs of services performed under the contract, general and administrative expenses and advertising expenses are expensed as incurred.

The liability for extended protection plan claims incurred is included in other current liabilities on the consolidated balance sheets and was not material in any of the periods presented. Expenses for claims are recognized when incurred and totaled \$36 million and \$95 million for the three and nine months ended October 30, 2015, respectively, and \$31 million and \$92 million for the three and nine months ended October 31, 2014, respectively.

Note 6: Long-Term Debt - In September 2015, the Company issued \$1.75 billion of unsecured notes in three tranches: \$250 million of floating rate notes maturing in September 2018 (the 2018 Notes); \$750 million of 3.375% notes maturing in September 2025 (the 2025 Notes); and \$750 million of 4.375% notes maturing in September 2045 (the 2045 Notes and, together with the 2018 and 2025 Notes, the Notes). The 2018, 2025, and 2045 Notes were issued at discounts of approximately \$1 million, \$8 million, and \$24 million, respectively. The discounts associated with these issuances are included in long-term debt and are being amortized over the respective terms of the notes using the effective interest rate method. The 2018 Notes will bear interest at a floating rate, reset quarterly, equal to the three-month LIBOR plus 0.600% (0.936% as of October 30, 2015). Interest on the 2018 Notes is payable quarterly in arrears in March, June, September, and December of each year until maturity, beginning in December 2015. Interest on the 2025 and 2045 Notes is payable semiannually in arrears in March and September of each year until maturity, beginning in March 2016.

We do not have the right to redeem the 2018 Notes prior to maturity. The indenture governing the 2025 and 2045 Notes contains a provision that allows the Company to redeem these notes at any time, in whole or in part, at specified redemption prices, plus accrued and unpaid interest, to the date of redemption. The indenture also contains a provision that allows the holders of the Notes to require the Company to repurchase all or any part of their notes if a change of control triggering event (as defined in the Indenture) occurs. If elected under the change of control provisions, the repurchase of the Notes will occur at a purchase price of 101% of the principal amount, plus accrued and unpaid interest, if any, on such Notes to the date of purchase. The indenture governing the Notes does not limit the aggregate principal amount of debt securities that the Company may issue and does not require the Company to maintain specified financial ratios or levels of net worth or liquidity. However, the indenture includes various restrictive covenants, none of which is expected to impact the Company's liquidity or capital resources.

Note 7: Shareholders' Equity - The Company has a share repurchase program that is executed through purchases made from time to time either in the open market, which may be made under pre-set trading plans meeting the requirements of Rule 10b5-1(c) of the Securities Exchange Act of 1934, or through private off-market transactions. Shares purchased under the repurchase program are retired and returned to authorized and unissued status. On January 31, 2014, the Company's Board of Directors authorized a \$5.0 billion share repurchase program with no expiration. On March 20, 2015, the Company's Board of Directors authorized an additional \$5.0 billion share repurchase program with no expiration. As of October 30, 2015, the Company had \$4.1 billion remaining in its share repurchase program.

Table of Contents

In March 2015, the Company entered into an Accelerated Share Repurchase (ASR) agreement with a third-party financial institution to repurchase \$500 million of the Company's common stock. At inception, pursuant to the agreement, the Company paid \$500 million to the financial institution using cash on hand, and took delivery of 5.7 million shares. In April 2015, the Company finalized the transaction and received an additional 1.1 million shares.

In May 2015, the Company entered into an ASR agreement with a third-party financial institution to repurchase \$1.0 billion of the Company's common stock. At inception, pursuant to the agreement, the Company paid \$1.0 billion to the financial institution using cash on hand, and took delivery of 12.2 million shares. In August 2015, the Company finalized the transaction and received an additional 2.3 million shares.

In September 2015, the Company entered into an ASR agreement with a third-party financial institution to repurchase \$500 million of the Company's common stock. At inception, pursuant to the agreement, the Company paid \$500 million to the financial institution using cash on hand, and took delivery of 6.2 million shares. Subsequent to the end of the third fiscal quarter, in November 2015, the Company finalized the transaction and received an additional 0.9 million shares.

Under the terms of the ASR agreements, upon settlement, the Company would either receive additional shares from the financial institution or be required to deliver additional shares or cash to the financial institution. The Company controlled its election to either deliver additional shares or cash to the financial institution and was subject to provisions which limited the number of shares the Company would be required to deliver.

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

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

During the three and nine months ended October 30, 2015, the Company also repurchased shares of its common stock through the open market totaling 3.5 million and 17.5 million shares, respectively, for a cost of \$250 million and \$1.3 billion, respectively.

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

Shares repurchased for the three and nine months ended October 30, 2015, and October 31, 2014 were as follows:

(In millions)	Three Months Ended		October 31, 2014	
	October 30, 2015		Shares	Cost <sup>1</sup>
Share repurchase program	12.0	\$750	19.3	\$900
Shares withheld from employees	0.1	4	0.1	3
Total share repurchases	12.1	\$754	19.4	\$903

<sup>1</sup> Reductions of \$714 million and \$838 million were recorded to retained earnings, after capital in excess of par value was depleted, for the three months ended October 30, 2015 and October 31, 2014, respectively.





Table of Contents

(In millions)	Nine Months Ended			
	October 30, 2015		October 31, 2014	
	Shares	Cost <sup>2</sup>	Shares	Cost <sup>2</sup>
Share repurchase program	45.0	\$3,250	58.9	\$2,880
Shares withheld from employees	0.9	66	0.9	47
Total share repurchases	45.9	\$3,316	59.8	\$2,927

<sup>2</sup> Reductions of \$3.1 billion and \$2.7 billion were recorded to retained earnings, after capital in excess of par value was depleted, for the nine months ended October 30, 2015 and October 31, 2014, respectively.

Note 8: Income Taxes - The Company's effective income tax rates were 38.0% and 38.5% for the three and nine months ended October 30, 2015, respectively, and 38.6% and 37.4% for the three and nine months ended October 31, 2014, respectively. The higher effective income tax rate for the nine months ended October 30, 2015, was primarily attributable to the favorable settlement of certain federal tax matters in the prior year.

Note 9: Earnings Per Share - The Company calculates basic and diluted earnings per common share using the two-class method. Under the two-class method, net earnings are allocated to each class of common stock and participating security as if all of the net earnings for the period had been distributed. The Company's participating securities consist of share-based payment awards that contain a nonforfeitable right to receive dividends and therefore are considered to participate in undistributed earnings with common shareholders.

Basic earnings per common share excludes dilution and is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares as of the balance sheet date, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings per common share for the three and nine months ended October 30, 2015, and October 31, 2014.

(In millions, except per share data)	Three Months Ended		Nine Months Ended	
	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
Basic earnings per common share:				
Net earnings	\$736	\$585	\$2,535	\$2,248
Less: Net earnings allocable to participating securities	(3)	(3)	(12)	(13)
Net earnings allocable to common shares, basic	\$733	\$582	\$2,523	\$2,235
Weighted-average common shares outstanding	918	978	933	996
Basic earnings per common share	\$0.80	\$0.59	\$2.70	\$2.24
Diluted earnings per common share:				
Net earnings	\$736	\$585	\$2,535	\$2,248
Less: Net earnings allocable to participating securities	(3)	(3)	(12)	(13)
Net earnings allocable to common shares, diluted	\$733	\$582	\$2,523	\$2,235
Weighted-average common shares outstanding	918	978	933	996
Dilutive effect of non-participating share-based awards	3	2	2	2
Weighted-average common shares, as adjusted	921	980	935	998
Diluted earnings per common share	\$0.80	\$0.59	\$2.70	\$2.24

Stock options to purchase 0.4 million and 0.8 million shares of common stock for the three months ended October 30, 2015 and October 31, 2014, respectively, were excluded from the computation of diluted earnings per common share because their effect would have been anti-dilutive. Stock options to purchase 0.1 million and 0.5 million shares of common stock for the nine

Table of Contents

months ended October 30, 2015 and October 31, 2014, respectively, were excluded from the computation of diluted earnings per common share because their effect would have been anti-dilutive.

## Note 10: Supplemental Disclosure

Net interest expense is comprised of the following:

(In millions)	Three Months Ended		Nine Months Ended	
	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014
Long-term debt	\$129	\$119	\$374	\$348
Capitalized lease obligations	10	10	32	31
Interest income	(1	) (1	) (3	) (2
Interest capitalized	(1	) —	(2	) (1
Interest on tax uncertainties	(1	) —	(1	) (2
Other	5	6	9	10
Interest - net	\$141	\$134	\$409	\$384

Supplemental disclosures of cash flow information:

(In millions)	Nine Months Ended	
	October 30, 2015	October 31, 2014
Cash paid for interest, net of amount capitalized	\$501	\$469
Cash paid for income taxes - net	\$1,654	\$1,185
Non-cash investing and financing activities:		
Non-cash property acquisitions, including assets acquired under capital lease	\$74	\$19
Cash dividends declared but not paid	\$257	\$225

Note 11: Recent Accounting Pronouncements - Effective January 31, 2015, the Company adopted Accounting Standards Update (ASU) 2014-08, Reporting Discontinued Operations and Disclosures of Components of an Entity.

The ASU amends the definition of a discontinued operation and also provides new disclosure requirements for disposals meeting the definition, and for those that do not meet the definition, of a discontinued operation. Under the new guidance, a discontinued operation may include a component or a group of components of an entity, or a business or nonprofit activity that has been disposed of or is classified as held for sale, and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. The ASU also expands the scope to include the disposals of equity method investments and acquired businesses held for sale. The adoption of the guidance by the Company did not have a material impact on its consolidated financial statements.

In April 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. The ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This ASU is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The adoption of this guidance by the Company is not expected to have a material impact on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. The ASU requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Acquirers must recognize, in the same reporting period, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been

completed at the acquisition date. This ASU is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The adoption of this guidance by the Company is not expected to have a material impact on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. The ASU requires entities using the first-in, first-out (FIFO) inventory costing method to subsequently value inventory at the lower of cost and net realizable value.

Table of Contents

The ASU defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU requires prospective application and is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The adoption of this guidance by the Company is not expected to have a material impact on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. The ASU requires entities to classify deferred tax liabilities and assets as noncurrent in a classified statement of financial position. This ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period. The adoption of this guidance by the Company is not expected to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of the ASU to fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU. The Company is currently evaluating the transition methods and the impact of the guidance on its consolidated financial statements.

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 reviewed the accompanying consolidated balance sheets of Lowe's Companies, Inc. and subsidiaries (the "Company") as of October 30, 2015 and October 31, 2014, and the related consolidated statements of current and retained earnings and comprehensive income for the fiscal three-month and nine-month periods ended October 30, 2015 and October 31, 2014, and of cash flows for the fiscal nine-month periods ended October 30, 2015, and October 31, 2014. These consolidated interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of January 30, 2015, and the related consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows for the fiscal year then ended (not presented herein); and in our report dated March 31, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet of the Company as of January 30, 2015, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina  
December 2, 2015

Table of Contents

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis summarizes the significant factors affecting our consolidated operating results, liquidity and capital resources during the three and nine months ended October 30, 2015, and October 31, 2014. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements that are included in our Annual Report on Form 10-K for the fiscal year ended January 30, 2015 (the Annual Report), as well as the consolidated financial statements (unaudited) and notes to the consolidated financial statements (unaudited) contained in this report. Unless otherwise specified, all comparisons made are to the corresponding period of 2014. This discussion and analysis is presented in seven sections:

Executive Overview  
Operations  
Lowe's Business Outlook  
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 the third quarter of 2015 increased 5.0% to \$14.4 billion. Comparable sales for the third quarter of 2015 increased 4.6%, with comparable sales of 5.1% in August, 4.8% in September, and 3.7% in October. Net earnings for the third quarter increased 25.8% to \$736 million, and diluted earnings per share increased 35.6% to \$0.80 per share. Continuing to deliver on our commitment to return excess cash to shareholders, during the third quarter, we paid \$260 million in dividends and repurchased a total of \$750 million of common stock through our share repurchase program.

During the third quarter, all 14 regions generated comparable sales increases. We experienced particular strength in Appliances, Seasonal Living and Tools & Hardware which all performed above the company average. Strong brand and service advantages in Appliances continued to drive double-digit comps in this category for the fourth consecutive quarter. Seasonal Living outperformed as we effectively anticipated customer needs and capitalized on favorable weather conditions early in the quarter. Tools & Hardware also performed well as a result of strong demand and customers' positive response to our continued enhancements in product assortment and brand relevance.

During the quarter, we have continued to focus on differentiating ourselves through better customer experiences and improving our product and service offering for the Pro customer. We have continued to enhance our omni-channel capabilities, centering on supporting our customers at every step of their home improvement journey. Specifically, during the third quarter, we expanded our Project Specialists Interiors program to an additional 475 stores, reaching 1,365 stores across the country. Together with our Project Specialists Exteriors (available in all of our U.S. home improvement stores) and Account Executives Pro Services, we meet our customers on their terms, in their homes or places of business. In addition, we remain committed to building a strong foundation with the Pro customer through the addition of several national and local brands, as well as our recent re-launch of lowesforpros.com. This full omni-channel experience allows for easy Pro online ordering and their choice of in-store pick-up or delivery, saving the Pro time and money.

In addition to our efforts to drive top-line growth, we continue to focus on driving productivity and profitability. During the quarter, we continued to effectively manage payroll hours to meet customer demand and to increase the effectiveness of our advertising through media optimization and targeted spend.



From an economic perspective, key indicators of the home improvement industry's outlook, including job and income growth, home buying, and home price appreciation remain supportive for industry growth. The execution of our strategic priorities and focus on productivity and profitability, combined with a favorable macroeconomic backdrop, continue to give us confidence in our Business Outlook for 2015.

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 (unaudited), as well as the percentage change in dollar amounts from the prior period. These tables should be read in conjunction with the following discussion and analysis and the consolidated financial statements (unaudited), including the related notes to the consolidated financial statements (unaudited).

	Three Months Ended		Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Period		Percentage Increase / (Decrease) in Dollar Amounts from Prior Period	
	October 30, 2015	October 31, 2014	2015 vs. 2014	2015 vs. 2014		
Net sales	100.00	% 100.00	%	N/A	5.0	%
Gross margin	34.75	34.49		26	5.8	
Expenses:						
Selling, general and administrative	22.89	23.80		(91	) 1.0	
Depreciation	2.61	2.74		(13	) (0.1	)
Interest - net	0.98	0.98		—	5.2	
Total expenses	26.48	27.52		(104	) 1.0	
Pre-tax earnings	8.27	6.97		130	24.5	
Income tax provision	3.14	2.69		45	22.3	
Net earnings	5.13	% 4.28	%	85	25.8	%
EBIT margin <sup>1</sup>	9.25	% 7.95	%	130	22.1	%
				Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Period	Percentage Increase / (Decrease) in Dollar Amounts from Prior Period	
	Nine Months Ended		2015 vs. 2014		2015 vs. 2014	
	October 30, 2015	October 31, 2014				
Net sales	100.00	% 100.00	%	N/A	4.9	%
Gross margin	34.87	34.82		5	5.1	
Expenses:						
Selling, general and administrative	22.55	23.15		(60	) 2.2	
Depreciation	2.43	2.57		(14	) (0.7	)
Interest - net	0.89	0.88		1	6.3	
Total expenses	25.87	26.60		(73	) 2.0	
Pre-tax earnings	9.00	8.22		78	14.9	
Income tax provision	3.47	3.07		40	18.5	
Net earnings	5.53	% 5.15	%	38	12.8	%
EBIT margin <sup>1</sup>	9.89	% 9.10	%	79	14.1	%

Table of Contents

Other Metrics	Three Months Ended		Nine Months Ended		
	October 30, 2015	October 31, 2014	October 30, 2015	October 31, 2014	
Comparable sales increase <sup>2</sup>	4.6	% 5.1	% 4.6	% 3.5	%
Total customer transactions (in millions)	213	207	681	667	
Average ticket <sup>3</sup>	\$67.34	\$65.97	\$67.30	\$65.45	
At end of period:					
Number of stores	1,849	1,836			
Sales floor square feet (in millions)	202	201			
Average store size selling square feet (in thousands) <sup>4</sup>	109	109			
Return on invested capital <sup>5</sup>	15.8	% 13.0	%		

<sup>1</sup> EBIT margin, also referred to as operating margin, is defined as earnings before interest and taxes as a percentage of sales.

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.

<sup>3</sup> Average ticket is defined as net sales divided by the total number of customer transactions.

<sup>4</sup> 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 home improvement store has approximately 112,000 square feet of retail selling space, while the average Orchard Supply Hardware (Orchard) store has approximately 37,000 square feet of retail selling space.

<sup>5</sup> Return on invested capital is a non-GAAP financial measure. See below for additional information and a reconciliation to the most comparable GAAP measure.

### 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 measures how effectively the Company uses 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)	For the periods ended	
Calculation of Return on Invested Capital	October 30, 2015	October 31, 2014
Numerator <sup>1</sup>		
Net earnings	\$2,984	\$2,554
Plus:		
Interest expense - net	540	512
Provision for income taxes	1,826	1,534
Earnings before interest and taxes	5,350	4,600
Less:		
Income tax adjustment <sup>2</sup>	2,027	1,729
Net operating profit after tax	\$3,323	\$2,871
Effective tax rate	38.0	% 37.5
Denominator		
Average debt and equity <sup>3</sup>	\$21,057	\$22,044
Return on invested capital	15.8	% 13.0

## Calculation of Return on Average Debt and Equity

Numerator <sup>1</sup>		
Net earnings	\$2,984	\$2,554
Denominator		
Average debt and equity <sup>3</sup>	\$21,057	\$22,044
Return on average debt and equity	14.2	% 11.6

<sup>1</sup> Amounts used in the calculation of the numerator are based on the trailing four quarters.

<sup>2</sup> Income tax adjustment is defined as earnings before interest and taxes multiplied by the effective tax rate.

<sup>3</sup> Average debt and equity is defined as average debt, including current maturities and short-term borrowings, plus total equity for the last five quarters.

Net Sales – Net sales increased 5.0% to \$14.4 billion in the third quarter of 2015. Comparable sales increased 4.6% over the same period, driven by a 2.5% increase in comparable customer transactions and a 2.0% increase in comparable average ticket.

During the third quarter, we experienced comparable sales increases in 12 of 13 product categories, with comparable sales increases above the company average in Appliances, Seasonal Living, and Tools & Hardware. Comparable sales in Outdoor Power Equipment were flat due primarily to a shift in timing of sales that occurred earlier in the year. Appliances experienced the strongest growth with a double-digit increase in comparable sales for the fourth consecutive quarter as we further strengthened our brand offerings and continued to provide service advantages with next-day delivery and haul away. Better holiday execution also positively impacted the Appliances category. The Outdoor Living Experience introduced last year drove strong sales in patio furniture, replacement cushions, and outdoor accessories. Seasonal Living also benefited from warmer weather particularly in the North and West driving strong demand for air conditioners. We experienced comparable sales increases in Tools & Hardware driven by strong demand and continued improvement in both product assortment and brand relevance.

Net sales increased 4.9% to \$45.8 billion for the first nine months of 2015 compared to 2014. The increase in total sales was driven primarily by the comparable sales increase of 4.6% and new stores. The comparable sales increase of 4.6% was driven by a 2.8% increase in comparable average ticket and a 1.8% increase in comparable customer transactions.

Gross Margin – For the third quarter of 2015, gross margin increased 26 basis points as a percentage of sales. Gross margin was positively impacted by 15 basis points associated with product cost deflation and 10 basis points due to better sell through of seasonal products.

## Table of Contents

Gross margin as a percentage of sales increased five basis points in the first nine months of 2015 compared to 2014 due primarily to positive impacts from value improvement, product cost deflation, and better sell through of seasonal products, partially offset by negative impacts from targeted promotional activity and mix of products sold.

SG&A – For the third quarter of 2015, SG&A expense leveraged 91 basis points as a percentage of sales compared to the third quarter of 2014. This was primarily driven by 17 basis points of leverage in advertising expense due to more efficient and effective media mix compared to the prior year. We experienced 16 basis points of leverage associated with our proprietary credit program due to continued growth in the program and lower operating costs. In addition, costs associated with building and site repairs leveraged 15 basis points due primarily to timing of projects. We also experienced 13 basis points of leverage in operating salaries as we optimized payroll hours against customer traffic and 10 basis points of leverage associated with incentive compensation due primarily to lower attainment levels in the current year in store and corporate bonus programs. Certain other fixed costs also leveraged as a result of sales growth.

SG&A expense as a percentage of sales leveraged 60 basis points in the first nine months of 2015 compared to 2014 due primarily to leverage in advertising expense of 15 basis points, operating salaries of 13 basis points, building and site repair of 8 basis points, utilities of 7 basis points and employee insurance costs of 7 basis points.

For all periods presented, SG&A includes losses associated with our investment in certain unconsolidated entities that are accounted for under the equity method (equity method investments). As of October 30, 2015, equity method investments represented approximately 2% of our total assets. These unconsolidated entities are in their development stages, and to the extent their operating models do not achieve profitability as expected, there is potential the Company could incur additional equity method losses or impairment expense. To the extent the fair value of our equity method investments decline below carrying value and is deemed other-than-temporary based on management's ongoing analysis of performance, we would write down the investment to its estimated fair value.

Depreciation – Depreciation expense leveraged 13 basis points for the third quarter of 2015 compared to the prior year due to increased sales. Property, less accumulated depreciation, decreased to \$19.7 billion at October 30, 2015, compared to \$20.2 billion at October 31, 2014. As of October 30, 2015 and October 31, 2014, we owned 86% of our stores, which included stores on leased land.

Depreciation expense leveraged 14 basis points in the first nine months of 2015 compared to 2014 due to increased sales as well as assets becoming fully depreciated.

Interest – Net – Interest expense for the third quarter and first nine months of 2015 increased compared to the prior year primarily due to the issuances of \$1.75 billion and \$1.25 billion of unsecured notes in September 2015 and September 2014, respectively.

Income Tax Provision – Our effective income tax rates were 38.0% and 38.6% for the three months ended October 30, 2015 and October 31, 2014, respectively.

Our effective income tax rates were 38.5% and 37.4% for the nine months ended October 30, 2015 and October 31, 2014, respectively. The higher effective income tax rate for the nine months ended October 30, 2015 was primarily attributable to favorable settlements of certain federal tax matters in the prior year.

## LOWE'S BUSINESS OUTLOOK

As of November 18, 2015, the date of our third quarter 2015 earnings release, our fiscal year 2015 guidance expected total sales to increase 4.5% to 5% and comparable sales to increase 4% to 4.5%. We expected to open 15 to 20 home

improvement and hardware stores during 2015. Earnings before interest and taxes as a percentage of sales (operating margin) was expected to increase 80 to 100 basis points, and the effective income tax rate was expected to be approximately 38.1%. Diluted earnings per share of approximately \$3.29 were expected for fiscal 2015.

We repurchased 45.0 million shares for \$3.3 billion under our share repurchase program in the first nine months of fiscal 2015. Our guidance assumed a total of \$3.8 billion of share repurchases for the fiscal year.

Table of Contents

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

## Cash Flows

The following table summarizes our cash flow activities for the nine months ended October 30, 2015 and October 31, 2014:

(In millions)	Nine Months Ended	
	October 30, 2015	October 31, 2014
Net cash provided by (used in):		
Operating activities	4,546	4,684
Investing activities	(986	) (887
Financing activities	(2,790	) (2,624

Cash flows from operating activities provided the primary source of our liquidity. The net cash provided by operating activities for the nine months ended October 30, 2015, was primarily driven by \$2.5 billion of net earnings, the net change in operating assets and liabilities of \$810 million, and \$1.2 billion of non-cash adjustments to net earnings for depreciation and amortization expense. The net cash used in investing activities for the nine months ended October 30, 2015, was driven by capital expenditures of \$844 million and contributions to equity method investments of \$106 million. The net cash used in financing activities for the nine months ended October 30, 2015, was driven by \$3.4 billion of share repurchases, cash dividend payments of \$700 million, and \$541 million repayment of long-term debt, partially offset by net proceeds from the issuance of additional long-term debt of \$1.7 billion.

The net cash provided by operating activities for the nine months ended October 31, 2014, was primarily driven by \$2.2 billion of net earnings, the net change in operating assets and liabilities of \$1.3 billion, and \$1.2 billion of non-cash adjustments to net earnings for depreciation and amortization expense. The net cash used in investing activities for the nine months ended October 31, 2014, was driven by capital expenditures of \$587 million, contributions to equity method investments of \$196 million, and \$142 million in net purchases of investments. The net cash used in financing activities for the nine months ended October 31, 2014, was driven by \$3.0 billion of share repurchases, cash dividend payments of \$597 million, and \$386 million in repayments of short-term borrowings, partially offset by net proceeds from the issuance of long-term debt of additional \$1.2 billion.

## Sources of Liquidity

In addition to our cash flows from operations, liquidity is provided by our short-term borrowing facilities. We have a \$1.75 billion unsecured revolving credit agreement (the 2014 Credit Facility) with a syndicate of banks that expires in August 2019. Subject to obtaining commitments from the lenders and satisfying other conditions specified in the 2014 Credit Facility, we may increase the aggregate availability by an additional \$500 million. The 2014 Credit 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 are priced at fixed rates based upon market conditions at the time of funding in accordance with the terms of the facility. The 2014 Credit Facility contains certain restrictive covenants, which include maintenance of an adjusted debt leverage ratio as defined by the credit agreement. We were in compliance with those covenants at October 30, 2015. There were no outstanding borrowings or letters of credit under the 2014 Credit Facility and no outstanding borrowings under the commercial paper program at October 30, 2015.

We expect to continue to have access to the capital markets on both short- 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 December 2,



2015, 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.

Table of Contents

Debt Ratings	S&P	Moody's
Commercial Paper	A-2	P-2
Senior Debt	A-	A3
Senior Debt 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, 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 cash and cash equivalents and short-term investments held in foreign affiliates to fund domestic operations.

## Cash Requirements

## Capital expenditures

Our fiscal 2015 capital forecast is approximately \$1.3 billion. Investments in our existing stores are expected to account for approximately 40% of our net cash outflow, including investments in remerchandising, store equipment, and technology. Approximately 35% of the planned net cash outflow is for store and distribution network expansion. In addition, approximately 20% of the 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 5% of planned net cash outflow, are for investments in our existing distribution network.

## Debt and capital

We have an ongoing share repurchase program that is executed through purchases made from time to time either in the open market or through private off-market transactions. Shares purchased under the share repurchase program are retired and returned to authorized and unissued status. As of October 30, 2015, we had a remaining repurchase authorization of \$4.1 billion with no expiration date. Our fiscal year 2015 guidance described under Business Outlook above assumed approximately \$3.8 billion in share repurchases for the fiscal year. See Note 7 to the consolidated financial statements included herein for additional information regarding share repurchases.

Unsecured debt of \$475 million and \$550 million is scheduled to mature in April and October 2016, respectively. See Note 6 to the consolidated financial statements included herein for additional information regarding long-term debt.

## 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 material, current or future effect on our financial condition, cash flows, results of operations, liquidity, capital expenditures or capital resources.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

In September 2015, we issued \$1.75 billion of unsecured notes in the ordinary course of business, which are included in the table below that summarizes our contractual obligations relating to long-term debt, excluding capitalized lease obligations, at October 30, 2015. Interest payments included in the table below are calculated based on the rates in effect at October 30, 2015. The unsecured notes are further described in Note 6 to the consolidated financial statements included herein.

(In millions)	Payments Due by Period		
	Total	1-3 Years	4-5 Years

Edgar Filing: LOWES COMPANIES INC - Form 10-Q

		Less Than 1 Year			After 5 Years
Long-term debt (principal amounts, excluding discounts)	\$12,191	\$1,026	\$1,003	\$951	\$9,211
Long-term debt (interest payments)	8,256	521	945	905	5,885
Total	\$20,447	\$1,547	\$1,948	\$1,856	\$15,096

As of October 30, 2015, there were no other material changes to our contractual obligations and commercial commitments outside the ordinary course of business since the end of 2014. Refer to the Annual Report on Form 10-K for additional information regarding our contractual obligations and commercial commitments.

Table of Contents

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are described in Note 1 to the consolidated financial statements presented in our Annual Report. Our critical accounting policies and estimates are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report. Our significant and critical accounting policies have not changed significantly since the filing of our Annual Report.

FORWARD-LOOKING STATEMENTS

This Form 10-Q includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"), which the words "believe," "expect," "anticipate," "project," "will," "should," "could," and similar expressions are intended to imply. Statements of the company's expectations for sales growth, comparable sales, earnings and performance, shareholder value, capital expenditures, cash flows, the housing market, the home improvement industry, demand for services, share repurchases, the Company's strategic initiatives and any statement of an assumption underlying any of the foregoing, constitute "forward-looking statements" under the Act. Although we believe that the expectations, opinions, projections, and comments reflected in these forward-looking statements are reasonable, we can give no assurance that such statements will prove to be correct. A wide variety of potential risks, uncertainties, and other factors could materially affect our ability to achieve the results either expressed or implied by these forward-looking statements including, but not limited to, changes in general economic conditions, such as the rate of unemployment, interest rate and currency fluctuations, fuel and other energy costs, slower growth in personal income, changes in consumer spending, changes in the rate of housing turnover, the availability of consumer credit and of mortgage financing, inflation or deflation of commodity prices, and other factors which can negatively affect our customers, as well as our ability to: (i) respond to adverse trends in the housing industry, such as a demographic shift from single family to multi-family housing, a reduced rate of growth in household formation, and slower rates of growth in housing renovation and repair activity, as well as uneven recovery in commercial building activity; (ii) secure, develop, and otherwise implement new technologies and processes necessary to realize the benefits of our strategic initiatives and enhance our efficiency; (iii) attract, train, and retain highly-qualified associates; (iv) manage our business effectively as we adapt our traditional operating model to meet the changing expectations of our customers; (v) maintain, improve, upgrade and protect our critical information systems from data security breaches and other cyber threats; (vi) respond to fluctuations in the prices and availability of services, supplies, and products; (vii) respond to the growth and impact of competition; (viii) address changes in existing or new laws or regulations that affect consumer credit, employment/labor, trade, product safety, transportation/logistics, energy costs, health care, tax or environmental issues; and (ix) respond appropriately to unanticipated failures to maintain a high level of product and service quality that could result in a negative impact on customer confidence and adversely affect sales. In addition, we could experience additional impairment losses if either the actual results of our operating stores are not consistent with the assumptions and judgments we have made in estimating future cash flows and determining asset fair values, or we are required to reduce the carrying amount of our investment in certain unconsolidated entities that are accounted for under the equity method. For more information about these and other risks and uncertainties that we are exposed to, you should read the "Risk Factors" and "Critical Accounting Policies and Estimates" included in our Annual Report on Form 10-K to the United States Securities and Exchange Commission (the "SEC") and the description of material changes therein or updated version thereof, if any, included in our Quarterly Reports on Form 10-Q.

The forward-looking statements contained in this Form 10-Q are based upon data available as of the date of this release or other specified date and speak only as of such date. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf about any of the matters covered in this release are qualified by these cautionary statements and the "Risk Factors" included in our Annual Report on Form 10-K to the SEC and the description of material changes, if any, therein included in our Quarterly Reports on Form 10-Q. We expressly disclaim any obligation to update or revise any forward-looking statement, whether as a result of new information,

change in circumstances, future events, or otherwise.

Item 3. - Quantitative and Qualitative Disclosures about Market Risk

The Company's market risk has not changed materially from that disclosed in our Annual Report on Form 10-K for the fiscal year ended January 30, 2015.

Item 4. - Controls and Procedures

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of October 30, 2015, the Company's disclosure controls

Table of Contents

and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

In addition, no change in the Company's internal control over financial reporting occurred during the quarter ended October 30, 2015, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

## Part II – OTHER INFORMATION

## Item 1A. - Risk Factors

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended January 30, 2015.

## Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

The following table sets forth information with respect to purchases of the Company's common stock made during the third quarter of fiscal 2015:

(In millions, except average price paid per share)	Total Number of Shares Purchased <sup>1</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>2</sup>	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>2</sup>
August 1, 2015 - August 28, 2015 <sup>3</sup>	3.0	\$68.79	2.9	\$4,850
August 29, 2015 - October 2, 2015 <sup>4</sup>	7.6	69.33	7.6	4,248
October 3, 2015 - October 30, 2015	1.5	72.88	1.5	4,138
As of October 30, 2015	12.1	\$69.64	12.0	\$4,138

<sup>1</sup> During the third quarter of fiscal 2015, the Company repurchased an aggregate of 12.1 million shares of its common stock. The total number of shares repurchased 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 share-based awards.

<sup>2</sup> On January 31, 2014, the Company's Board of Directors authorized a \$5.0 billion share repurchase program with no expiration. On March 20, 2015, the Company's Board of Directors authorized an additional \$5.0 billion of share repurchases with no expiration. As of October 30, 2015, the Company had total share repurchase authorization remaining available of \$4.1 billion. In fiscal 2015, the Company expects to repurchase shares totaling \$3.8 billion through purchases made from time to time either in the open market, including through pre-set trading plans, or through private off market transactions in accordance with SEC regulations.

<sup>3</sup> In May 2015, the Company entered into an ASR agreement with a third-party financial institution to repurchase \$1.0 billion of the Company's common stock. Pursuant to the agreement, the Company paid \$1.0 billion to the financial institution and received an initial delivery of 12.2 million shares. In August 2015, the Company finalized the transaction and received an additional 2.3 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 7 to the consolidated financial statements included in this report.

<sup>4</sup> In September 2015, the Company entered into an ASR agreement with a third-party financial institution to repurchase \$500 million of the Company's common stock. Pursuant to the agreement, the Company paid \$500 million to the financial institution and received an initial delivery of 6.2 million shares. In November 2015, the Company finalized the transaction and received an additional 0.9 million shares. The average price paid per share reflected in the table above was derived using the fair market value of the shares on the date the initial 6.2 million shares were delivered. See Note 7 to the consolidated financial statements included in this report.

Table of Contents

## Item 6. - Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference			Filing Date
		Form	File No.	Exhibit(s)	
3.1	Restated Charter of Lowe's Companies, Inc.	10-Q	001-07898	3.1	September 1, 2009
3.2	Bylaws of Lowe's Companies, Inc., as amended and restated August 24, 2012.	8-K	001-07898	3.1	August 27, 2012
12.1	Statement re Computation of Ratio of Earnings to Fixed Charges.‡				
15.1	Deloitte & Touche LLP Letter Re Unaudited Interim Financial Information.‡				
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) / 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡				
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) / 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡				
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†				
101.INS	XBRL Instance Document.‡				
101.SCH	XBRL Taxonomy Extension Schema Document.‡				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.‡				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.‡				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.‡				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.‡				



‡ Filed herewith.

† Furnished herewith.

25

---

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LOWE'S COMPANIES, INC.  
(Registrant)

December 2, 2015

Date

By: /s/ Matthew V. Hollifield  
Matthew V. Hollifield  
Senior Vice President and Chief Accounting Officer

26